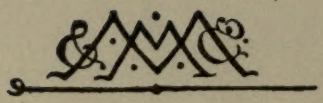
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PREFACE

In the preface to his *Twenty Years of Financial Policy* (1862), the late Lord Iddesleigh, then Sir Stafford Northcote, explained that his intention in writing that admirable book, a model of its kind, was to provide a "convenient summary of the financial measures of recent years"; and Mr. Sydney Buxton's more comprehensive volumes, *Finance and Politics*, which dealt with the national finance (and much besides) in a most interesting fashion, from the days of Pitt and Huskisson, carried on the story of the budgets to the year 1885-6. Since that date, in spite of the much greater attention which has been paid by economic writers to questions of taxation and finance, nothing has been published on similar lines; and those who have been in the habit of consulting Mr. Buxton's valuable work must often have wished that he could have found time to bring it up to date. Parliamentary experience is not the only qualification for a survey of this kind which I can make no claim to share with these two distinguished public men; and I should certainly have hesitated

to attempt a continuation of their work, however limited in scope, if I had not been warmly encouraged to do so by Mr. Buxton himself when I propounded the idea to him a few years ago. His advice, and the ample published materials available, decided me not to shrink from a task which no one else seemed inclined to undertake, and which, if it succeeded in giving another "convenient summary" of the financial policy and budget figures of recent years, might, I thought, be of some use to students of the subject.

As regards the general plan of this book, my object has been, first, to give from the Parliamentary Reports as fair an account as I could in a very condensed form of the budget statements and discussions, bringing out by quotations from (or summaries of) the speeches the opposing arguments on any important question raised in them, especially on any question of principle (Part I.); and secondly, to put together the figures for the whole period, the budget tables with full details of alterations in taxation in Part II., and in Part III. notes and tables analyzing and illustrating, as far as space would allow, the various items of revenue and expenditure and the probable incidence (in a very general way) of the burden of taxation. For obvious reasons I have, unlike Mr. Buxton, confined myself strictly to the fiscal aspect of the subject, and I have, further, not attempted to link this volume to his by carrying the comparisons

back but have treated my period as separate and self-contained.

The last quarter of a century has been signalized by events and changes which have profoundly influenced public finance. The expansion of the great industries, the wonderful growth of foreign trade and of shipping, and the development of cosmopolitan finance of which London is still the most important centre, have raised the standard of living in all classes; and by creating new wants and weakening the sense of any need for economy, they have given a great impulse to expenditure both in private life and in public administration, and encouraged the national propensity to look upon lavish outlay as synonymous with efficiency. The conscience of the community has become increasingly alive to all that is unfavourable in the material condition of the poorer classes; an unlimited confidence in the efficacy of public action and public money in dealing with social problems has taken the place of a somewhat too dogmatic reliance upon spontaneous development and individual effort and foresight; the principles of state socialism have largely superseded those of free exchange in every direction except that of foreign trade; and the conception of the objects for which taxation may legitimately be imposed has therefore been immensely widened. In the political sphere this period has witnessed the final though long delayed triumph of the democratic elements in

the constitution; and it has also witnessed, whether as a consequence or not, a continuous decline in the power to control expenditure which statesmen of the era of Mr. Gladstone were accustomed to exercise. Quite as significant in its financial effects has been the growth of foreign rivals, both in industrial efficiency and in naval strength, which has seriously altered the relative position of this country. England is no longer, as she still was at the beginning of the period, the workshop of the world and the unchallenged mistress of the sea; and leaders of public opinion are constantly urging upon her fresh efforts to hold her own in both capacities, efforts which, however necessary they may be, are making ever fresh demands upon the public purse.

It is therefore not surprising that the outstanding feature of these years from a budget point of view should be the growth, accepted as inevitable if not welcomed as beneficial, of the national expenditure; and the main interest of the present review lies in the process of expansion and adjustment by which the revenue system has so far been enabled to cope with the increasing cost of administration. Throughout these discussions there is traceable a constant preoccupation with the question of the "ability" or "capacity" of the tax-payer, and a successful endeavour to apportion the burden of taxation, both as between individuals and as between classes, in accordance with modern theories of equity in such matters.

As regards owners of property and income-tax-payers generally the idea that a tax should be levied at a constant rate, irrespective of the amount of the income, has by degrees been largely superseded by the adoption of progressive rates; and graduation, which relieves the poorer at the expense of the richer members of this class and thereby increases the productiveness of the imposts to which it is applied, is now a recognized element in direct taxation. As between the income-tax-paying class on the one hand and those below the income-tax limit on the other, the proportion of taxation falling upon each, as shown by the proportion of direct to indirect taxation, has been very considerably altered since the beginning of this period to the advantage of the poorer sections of the population. Even the rough and ready rules which prevailed during the earlier years, and indeed until after the South African War, rules which aimed at a general equality between these two branches of taxation, and which provided that each should be affected *pari passu* by increases or remissions, have now been so much modified in practice that little remains except a bare assertion of the general principle that all classes ought to be required to contribute proportionately (however that term may be understood) to the revenue.

The progress which has been made in this direction during a period of growing liabilities is probably without a parallel in the fiscal history of great civilized states. In none of them except our own have both

the political and economic conditions prevailed which together have made it possible to face the universal problem of rising expenditure with so scrupulous and even sensitive a regard for the tax-paying capacity of the wage-earners. When it is considered in what manner a large proportion of the taxation which falls upon them is raised and how much of the proceeds are devoted to their exclusive benefit, it may be admitted that, judged by the standards which prevail in other countries and which have in the past prevailed at home, the poorer classes are now in a relatively favourable position as regards their obligations to the State. A political philosopher, indeed, might desire that in the interest of democratic government itself, which cannot afford to become increasingly dependent on the income and property of a small minority of citizens for its support, some definite principle should be formulated governing the proportion which the different categories of income should contribute to the revenue. But an essential preliminary to such an understanding would be the authoritative investigation into the present distribution of the aggregate income of the country, and into the manner in which incomes of varying amounts are actually affected by taxation, for which prominent speakers have, as will be seen, more than once called without avail in the course of these discussions.[1] Assuming, however, that, as a result of the changes

[1] See *e.g.* pp. 143, 196, 231.

noted above, the present allocation of the public burdens has now begun to conform to some standard of equity, the question whether that allocation requires further improvement, or even whether it can be maintained, will certainly depend much less upon such considerations as these than upon practical and political exigencies, if the increase of expenditure should continue to outrun the natural growth of the revenue. The existing sources of taxation, so often, from Lord Goschen's time downwards, proclaimed to be inadequate, have so often successfully responded to fresh demands as the country has grown in wealth and prosperity that it would be rash to assert that a limit has even yet been reached to their elasticity and productiveness. But the difficulty which will be felt in adding materially to any of them is evident from recent budget debates; and the same sort of *impasse* is always within sight as that which characterized the years 1901 and 1902, with the same result of reviving the old but never ended controversy between the respective merits, if only from a revenue point of view, of direct and indirect taxation.

So much may be said by way of allusion to some of the main points which arise out of the following compilation of facts and opinions; and it only remains for me to express my sincere gratitude to those friends, both in the public service and outside, who have enabled me to bring it to completion by answering, often at considerable trouble to themselves, the

questions I have addressed to them on points of detail, by supplying me with accurate figures, or by referring me to the publications in which the information I sought was to be found. I should like especially to thank Mr. W. E. Willan of the Estate Duty Office, Inland Revenue, who has rendered me great assistance not only in his own special subject but in the preparation of the accounts of several of the budget discussions, and also Mr. G. H. Tregear B.Sc. Econ., of the General Register Office, whose help in drawing up and arranging the statistical tables, in reading the proofs, and in many other ways, has been invaluable in all the later stages of the work.

B. M.

43 Cadogan Gardens,
November, 1913.

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PART I.

BUDGET STATEMENTS AND DISCUSSIONS.

MR. GOSCHEN'S BUDGETS.

FIRST BUDGET, 1887-8.

April 21, 1887.

On the 21st of April, 1887, Mr. Goschen, as Chancellor of the Exchequer, opened the first of a series of six budgets which will form the subject of the opening pages of this study.

Little more than three months had passed since Lord Randolph Churchill's sensational resignation had endangered the existence of the new administration, and led to Lord Salisbury's offer to make way for Lord Hartington. The crisis had been averted by Mr. Goschen's acceptance of office under Lord Salisbury, and the propriety of his decision was recognized by all parties, and by none more cordially than by the Liberal friends with whom he had laboured in the cause of the union. But it was some time still before the Government emerged from troubled waters: the sudden death of Lord Iddesleigh cast a cloud on the reconstructed Cabinet, and the meeting of the round table conference, at Mr. Chamberlain's suggestion, revealed differences among prominent Unionists which seemed to justify the pessimistic views of the political situation held at that time by the Conserva-

tive leaders. Few of them, certainly, anticipated the long term of ascendancy which lay before them, at first with the unofficial support of the Liberal Unionists and subsequently in coalition with them. As things turned out Lord Salisbury's second administration (1886-1892) was one of the most successful of modern times, and Mr. Goschen, with six years at the Treasury, was given an opportunity which has seldom fallen to the lot of so trained and skilful a financier and economist.

Mr. Goschen's speech on this occasion, which took three hours in delivery and which, as Mr. Childers observed, held the attention of the House considering the complication of the subject in a "marvellously successful way," shewed in every sentence an individuality of treatment and a technical mastery of his subject, such as only a lifelong experience of financial matters could explain.

A survey of the results of the previous year, in which, owing to the successful efforts of Lord Randolph Churchill in the cause of economy and to an excess in the field of revenue, Sir William Harcourt's estimated surplus of £259,000 had been turned into one of £776,000, led him to some rather gloomy but characteristic reflexions on the financial position.

After demonstrating that the expenditure of the country was "very elastic" he attempted to shew, by an interesting comparison of the growth of the produce of taxes over a period of some twenty-five years, that the revenue no longer possessed the elasticity which was necessary to meet increasing demands. In the first period, 1859-1860 to 1863-4, the net produce of taxation under the heads of customs, excise,

stamps and house duty (income-tax he treated separately) increased 10·8 per cent., in the next period 9·9 per cent., in the flourishing period, 1870-1875, 24·2 per cent., in 1875-1880 there was a decrease of 2·9 per cent., followed by an increase in 1880-5 of 5·8 per cent., a decrease of 3·7 per cent. in 1885-6 and an increase of 0·8 per cent. in 1886. Mr. Goschen drew much the same conclusions from an analysis of the recent returns from Schedule D of the income-tax, and referred in cautious terms to the fact that the "basis of taxation is extremely narrow, and it is incumbent on us, therefore, to examine both the strength of those great props on which the revenue rests and also the forces on the side of expenditure which may be brought against those props." A great deal was to be heard of this line of argument in subsequent years, but for the moment it is sufficient to note that Sir William Harcourt entirely refused to take a pessimistic view of the revenue, and laid stress on the evidence which shewed that there was no failure either in the consuming power of the people or in their power of accumulating wealth.

Passing over an interesting analysis of the increasing distribution of wealth as shewn by the produce of Schedule D, and the effect of the increase of joint stock companies—subjects which he treated later with greater fullness before the Royal Statistical Society—we may turn to the changes Mr. Goschen proposed in the estimates for the coming year which, on the basis of existing taxation and of the estimates presented, stood at £91,155,000 revenue and £90,180,000 expenditure, leaving an anticipated surplus of £975,000.

This surplus not being sufficient for the arrangements he contemplated, Mr. Goschen, under the influence of the above reflexions on the revenue, proceeded in the first instance to swell it by a method which brought the severest criticism from the four ex-Chancellors of the Exchequer who took part in the debate, Mr. Gladstone, Sir William Harcourt, Mr. Childers and Lord Randolph Churchill.

Sir Stafford Northcote, in 1875, had fixed the permanent charge for the service of the National Debt at £28,000,000 which by subsequent operations had been increased to £28,037,000. This charge Mr. Goschen announced that he now considered too large to be set apart for the discharge and reduction of the liabilities of the nation, and that he proposed accordingly to reduce it to £26,000,000; mainly by a consolidation of the three so-called "rolling annuities" amounting to £3,600,000 for five, ten and fifteen years respectively, instituted by Mr. Childers in 1883, into a single annuity amounting to £1,930,000, and a prolongation of the term so that the cancellation of the £30,000,000 savings bank stock originally cancelled by the "rolling annuities" would be completed in fifteen years.

He justified this proposal by referring to the various suspensions of the new sinking fund which had taken place in recent years (the last by Sir William Harcourt in the previous year), and congratulated himself on obtaining a considerable relief with a very small amount of disturbance, and on maintaining the principle of a fixed charge and the new (Northcote) sinking fund which resulted therefrom. He pointed to the fact that the country was

then paying £12,600,000 more in taxes than when Sir Stafford Northcote carried his increase of the debt charge; that the income-tax now stood at 8d. instead of at 2d.; and he contended that in the interest of the "steady and efficient repayment of the National Debt it would be unwise if we were to string our bow too tight and if, in endeavouring to defend the £28,000,000, we were to insist on maintaining any kind of tax permanently at an unreasonable height." He calculated finally that if the charge of £26,000,000 were steadily adhered to we should reduce £600,000,000 in about fifty-two years.

The arguments were familiar, and sound in so far as they drew attention to the weakness of all sinking funds, which is that while the portion of the annual charge required for interest on the debt decreases, the portion devoted to repayment of capital steadily increases until tax-paying human nature may be driven into revolt.[1] The opposition critics, however, were undoubtedly right in dwelling as they did on the much greater capacity of the country than at an earlier period to bear taxation, on the danger of blunting a great financial weapon which should be held in reserve for a term of emergency, on the "paltry and frivolous purpose" for which the sinking fund was being permanently weakened.

If the question is to be treated as one of political expediency, if principle is to be set aside, the justification must at least be overwhelming. This was the

[1] The sums devoted to the repayment of capital (not including the "old" sinking fund) had increased from £4,107,342 in 1875-6 and £4,984,100 in 1877-8 to £7,028,143 in 1884-5. After Mr. Goschen's proposals it fell to about £5,000,000 (see National Debt Return, cd. 5682, 1911, p. 15).

position of Lord Randolph Churchill in his attack on his successor's policy and his ironical lamentation on the "fall" of the "orthodox apostle, the canonized saint, of financial purity." For Lord Randolph himself, as is now well known, had, before his resignation made up his mind to a still more serious raid on the sinking fund, which he would have defended as a means to carry out much larger and more notable fiscal operations than the slight reduction of the income-tax proposed by Mr. Goschen. The latter, indeed, made much of the burden of this impost on the mass of small income-tax payers and of the necessity for relieving them, but it is impossible to feel that he had the best of the argument on this occasion.

This proposal was coupled with another which was of less questionable utility, and which reduced the surplus thus manufactured by £333,000, leaving it at £1,704,000. This was the creation of the Local Loans Fund with the object of remedying the actual "confused and unsatisfactory state of things," which made it impossible to see at a glance how much money had been contributed towards local loans, or what was the charge on the revenue on account of these local loans. Money required for this purpose had hitherto been taken from balances, or raised by borrowing, and the receipts paid into the Exchequer. In future, it was to be raised exclusively by the issue of 3 per cent. Local Loans Stock, and as a transitional step £37,200,000 of Local Loans Stock, equivalent to the outstanding advances, were to be created in exchange for securities held by the National Debt Commissioners, which were to be cancelled.

The proposal remedied several defects in the existing arrangements; the want of uniformity in procedure, the want of any account shewing the total liability of the State in its capacity of loan-monger, the mixing up of the different classes of debt, the "Deadweight" debt and debt which is reproductive and is, or should be, automatically repayable. There was no serious criticism of this proposal.

The estimated surplus now stood at £2,779,000 by the addition of the above £1,704,000 taken from the sinking fund, and of £100,000 from stamps. It was disposed of as follows: (1) By a reduction of the income-tax from 8d. to 7d. at an estimated cost for the current year of £1,560,000 (an option was at the same time granted to farmers of being assessed on their actual profits under Schedule D, instead of under Schedule B, a provision which has had but a very limited effect); (2) By a reduction of the tobacco duty from 3s. 6d. a lb., to which Sir Stafford Northcote had raised it in 1878, to 3s. 2d. Mr. Goschen shewed that the change had not been a success from the revenue point of view, and that it had checked the consumption of tobacco by causing it to be diluted with water, so that it no longer kept pace with the growth of population. Provision was also made of a legal limit of 35 per cent. of water, and the cost of the reduction was put at £600,000. With the additional expenditure referred to in the next paragraph, the surplus would stand at £289,000.

The expenditure was to be increased by the additional grant of £280,000 in aid of local taxation in England and Wales, coupled with an equivalent grant to Ireland of £50,000 for arterial drainage. The grant

was put forward as a temporary anticipation of the relief to be afforded by the promised reform of local government, and the amount was equivalent to the carriage-tax which, with other license duties, was to be handed over to the local authorities, after the passing of the proposed measure. Lord Randolph Churchill and various Liberal speakers severely criticized this proposal as benefiting only the rural ratepayers, as a continuance of the discredited system of doles, and as weakening the power of the Government to establish a popular system of local government; but Mr. Goschen's reference to the character of the Local Government Bill which Mr. Ritchie had in preparation caused them to waive their opposition; and the financial proposals were agreed to with little further serious discussion, the attention of the House of Commons being largely occupied by Ireland and the passing of the Peace Preservation Act.

This budget was, like its successors, remarkable not so much for the magnitude of the changes effected, as for the ingenuity it displayed in distributing benefits and burdens.

Mr. Goschen concluded by mentioning the great tasks which, in his opinion, required attention; the reform of the death duties and stamp duties, the condition of the currency and the coinage, the examination of the whole question of local taxation, and, finally, the "analysis of the proportions in which different parts and classes of the Empire contribute to Imperial taxation, and the consideration whether these proportions are just." How far he was to carry out such tasks as these will be seen as we proceed with the survey of his subsequent budgets.

MR. GOSCHEN'S SECOND BUDGET, 1888-9.

March 26, 1888.

Mr. Goschen introduced his second budget on March 26th, 1888, at so early a date that he was obliged to estimate the figures of the last week of the expiring year. The result of that year turned out to be a surplus of £2,378,000 (corrected figures given subsequently) instead of the estimated surplus of £289,000 ; but the reproach of over-cautious estimates, which was with a certain justice levelled against Mr. Goschen on some subsequent occasions, hardly explained this surplus.

Expenditure had been kept down by careful administration which still shewed traces of the influence of that determined economist Lord Randolph Churchill, while, as regards revenue, two items accounted for most of the increase beyond the estimate, excise and stamps. The revenue from beer, perhaps owing to the Jubilee celebrations in a fine summer, had shewn great elasticity, and a record sum of £8,710,000 had been realised. " Stamps, a very promising field," as Mr. Goschen termed it, " for the fiscal reaper," had exceeded the estimate by £1,242,000 (net receipts), of which £988,682 (net receipts) was due to the sensational produce of the probate and legacy duties. Last year the Chancellor of the Exchequer had remarked on the " steady and average " revenue from death duties. " Since then the probate duty has heaped coals of fire on my head by passing large sums into the Exchequer. Two estates of over three million apiece had fallen in," and one of £1,800,000 ; windfalls,

indeed, as there had only been three estates of the magnitude of three millions in the twenty preceeding years. Mr. Goschen summed up the main features of this not unsatisfactory balance-sheet, by remarking that for the first time since 1870 there had been no supplementary estimate or votes of credit either for the Army or Navy. For the first time since 1869 there "have been no supplementary estimates for the revenue departments. There have been smaller supplementary estimates for civil services than for 20 years past, excepting last year. We have a larger surplus, a larger balance at the end of the year, and we have paid off more debt (£7,293,000) than in any year since 1872-3." As regards the last item, however, Sir William Harcourt observed that he had been a reducer of the debt *malgré lui*, owing to the action of the old sinking fund, which had appropriated his surplus and thus made up for his unnecessary reduction of the new sinking fund.

The interest of the new budget was somewhat discounted by two measures, both of greater interest and importance in their financial aspect, which preceded its introduction and must have imposed a great strain upon its author. The first of these was the great scheme for the conversion of the National Debt which the Chancellor of the Exchequer explained to the House of Commons on the 9th of March, and of which it is only necessary to say at this moment that it was the largest and, as the event proved, the most successfully conducted operation of the kind since Mr. Goulburn's conversion scheme of 1844, and that its fiscal effect was estimated as a saving to the Exchequer of £1,400,000 a year from April, 1889, and

after fourteen years more of £2,800,000 a year. With regard to the policy of this measure, it is a sufficient answer to the criticisms levelled at it in later years when the fall in Consols, due to so many conspiring causes, came about, that the phenomenal rise in the value of this security during the last years of the century would have made it impossible for any finance minister to resist a demand for conversion, and much more difficult to effect it than at the moment wisely and fortunately chosen by Mr. Goschen.[1]

The second was the introduction by Mr. Ritchie of a Local Government Bill for England and Wales on popular and democratic lines.

This Bill involved proposals for the readjustment of the relations between Imperial and Local Finance, and the provision of an additional £3,000,000 per annum for the latter, proposals of which Mr. Ritchie gave a preliminary account to the House, and which afterwards formed the staple of the Budget speech.

The only interesting feature of the expenditure for the new year (which Mr. Goschen put at £86,910,000, or £514,000 less than the actual expenditure of the past year), was the mention of the conversion scheme, of which part of the cost would fall on the revenue for the current year, and of the Imperial Defence Act (1888), which, however, involved no material additional charge till 1889.

[1] Existing "Consols," "Reduced Threes," "New Threes" were to be replaced by a new stock, irredeemable till 1923, bearing 2¾ per cent. interest till 1903, and thenceforward 2½ per cent. All recognized agents bringing in stock for conversion were to receive a bonus of 1s. 6d. per cent. Between April, 1888, and October, 1889, out of a total sum of three per cent. stocks amounting to (about) 592½ million, about 565½ million were converted, 5¾ million remaining in suspense and 19¼ million being paid off at par.

The revenue was estimated at a total of £89,287,000 or £302,000 less than that of the past year, the only substantial increases being under the heads of tea, and of tobacco,[1] as to which the reduction of duty had proved rather more expensive than was anticipated, while the watering clauses were beginning to have their effect in increasing consumption.

Mr. Goschen took the opportunity of repeating his warning that the taxes on consumable articles "that portion of the revenue to which the great consuming classes chiefly contribute, is a halting and inelastic revenue." Of the income-tax he "could not speak with any degree of satisfaction," and owing to the action of the "average" system in retarding the effect of reviving prosperity, and the arrears collected being at 7d. instead of 8d. (as in the previous year), he allowed for a diminution of £520,000. The surplus on the existing basis of taxation would accordingly amount to £2,377,000.

Local taxation had been a constant subject of controversy in Parliament since the first Reform Bill The growth of local needs, demands in connection with sanitation, public roads, municipal buildings, housing, Poor Law, education and the like had caused a constant growth of local expenditure and an increasingly powerful agitation for the relief of rates incidental to property from other sources of revenue to which the community contributes as a whole. The land-owning and rate-paying interests had every right to complain of a system which not only placed local

[1] Consumption just before the duty was raised in 1877, 1·49 lb. a head.
Consumption had fallen in 1882 to - - - 1·42 ,,
Consumption rose in last five months of 1887-8 to 1·49 ,,

burdens exclusively on land and houses allowing owners of personal property, in theory at all events, to escape from any contribution, but also saddled local taxation with expenditure on objects such as roads, paupers, education, which were largely matters of national concern. On the other hand, much local expenditure was obviously of a character primarily beneficial to owners of property, and there were grave objections from this point of view, if from no other, to "charging upon labour," in Mr. Gladstone's language,[1] "through the medium of the Consolidated Fund, local burdens which our laws have always treated as incidental to property"; while grants-in-aid might give immediate relief to the occupier, but not enduring relief, because on the next adjustment of rent the grants would be taken into account. Mr. Goschen himself had exhaustively considered the whole question as President of the Poor Law Board in 1870, and his report on local taxation in 1871, which by no means buttressed up the landlord side of the case, had become a classic; but his own Bills, with proposals for the simplification of local administration and for transferring the payments of half the rates from occupiers to owners, and for handing over the house-tax to local authorities to be levied by and paid to them, were on that occasion unfavourably received; and Sir Stafford Northcote subsequently dealt with the question by increased subventions out of the Exchequer for various specific purposes, a system which, if accompanied by sufficient safeguards for the efficiency of the service for which the grant is ear-

[1] Mr. Gladstone's Election Address, 1885.—*Times*, 19th September, 1885.

marked as laid down by Sir Robert Peel, is sound in principle. It was not till the reform of local government became a practical question of politics that any real advance in the solution of the many intricate questions involved could be looked for. It would, however, be misleading to suggest that such a solution was arrived at in the measure which finally passed through Parliament in this session.

The system of grants-in-aid [1] had long been criticized by some authorities as being in actual practice an extravagant method of meeting the difficulty, and there was at all events at that time a general agreement as to the advisability of removing this charge from the Imperial Budget. "It is bad finance," said Mr. Goschen, "to have the same expenditure appearing in two accounts." "Nothing can be worse," said Mr. Gladstone, "than a system under which the expenditure of the country is subjected to factitious augmentation by including in it very large sums

[1] They were:

1. In England and Wales—		
Disturnpiked and main roads	£250,000	
Poor Law Grants	290,000	
Criminal Prosecution	145,000	
Police: London, County and Branch	1,430,000	
Pauper lunatics	485,000	
		£2,600,000
2. In Scotland—		
Roads	£35,000	
Medical Relief	20,000	
Police	155,000	
Pauper lunatics	90,000	
		£300,000
3. In Ireland—		
Nil.	—	—
Total		£2,900,000

intended to go into the local treasury, and to be disbursed for local purposes . . . which have nothing to do with the public Exchequer or with imperial purposes." All these grants-in-aid, accordingly, amounting in England and Wales to £2,600,000, were to be withdrawn from the local authorities from April 1, 1889. To take their place the principle of transferring, intercepting or ear-marking certain imperial revenues to augment local revenues was to be introduced. Local taxation accounts were to be opened in the three kingdoms, into which the revenues collected by the central authority were to be paid.

In the first place, certain existing licenses, amounting to £1,400,000 (England and Wales), principally publicans' licenses, were to be transferred to the new county authorities, to be collected by them and subject to a certain limited increase at their discretion. Another portion, amounting to £1,600,000, consisting of the "establishment licenses" (gun, game, dog, carriage licenses, etc.) were also transferred, but would still be collected by the Inland Revenue Department. Power was conferred (but not exercised) to enable county councils, by order in council, to levy the duties on all or any of the licenses (§ 20 of 51 and 52 Vic. c. 41). These sums amounted to £3,000,000, or £400,000 more than the withdrawn grants-in-aid. But it was intended that additional relief should be given to local taxation to the extent of £3,000,000. Therefore, £800,000 new licenses (which will be described later) were to be instituted for the benefit of the county councils, and a further £1,700,000 was found by a method which constituted one of the most interesting features of the new proposals.

Mr. Goschen was a recognized authority on local taxation, and on this occasion he made use of arguments which have since become familiar in similar discussions.

He distinguished between rates which had become hereditary burdens, and those which were recent additions to the charges on rateable property and made it necessary to endeavour to secure some additional contribution from personalty. Rates had risen since 1868 from sixteen or seventeen millions to twenty-six millions or more. He rejected the idea not only of a local income-tax as impossible but also of an additional penny on the Imperial income-tax to be allocated to local taxation, partly because that tax also fell upon land and houses and partly (and this was a congenial theme with him) because of the burden of the income-tax on the earnings of the "struggling middle class upon whom the rates also fell very heavily." The probate duty, which taxed realized personalty, "personal property yielding income, and personal earnings," was not open to these objections, and Mr. Goschen accordingly decided for the allocation of one-half of the existing probate duty to local taxation. As this duty was finally estimated to produce £4,260,000, the local half would produce £2,130,000, and as this half would be assigned to England, Scotland and Ireland, in the respective proportions of 80 per cent., 11 per cent. and 9 per cent., £1,700,000 would be the share of England. The net gain to English and Welsh local taxation would thus be raised to £2,900,000.

It was at first proposed that this grant should be distributed among the various local authorities on the

basis of indoor pauperism, but it was ultimately decided to allocate it to counties in proportion to existing grants-in-aid, a less satisfactory basis which Mr. Goschen had himself condemned as "offending every principle of justice."

The proposal had the greater advantage in Mr. Goschen's view in that, by the halving of the then rate of the duty levied for Imperial purposes (thus bringing it down to 1½ per cent.), it would be easy to produce a seeming equality in the taxation of realty and personalty under the death duties. With this object he proposed to raise the rate of the succession duty, which he described as a death duty on land, from 1 per cent. to 1½ per cent. on lineals and 1½ per cent. on collaterals, so as to bring it into equality with the share of the probate and legacy duty, which was to come into the National Exchequer.

Subsequent discussion showed that this proposal had reawakened the controversy as to the incidence of the death duties on realty and personalty respectively, without settling what Mr. Gladstone, in his amendment to the second reading on this point, described as "this wide and complex subject"; and the talk ranged over the whole field of the incidence of local taxation, upon realty, personalty, rateable and non-rateable property, much of it—since persons, not property, bear rates and taxes—wholly irrelevant to any true view of the question.

The arrangements for endowing the new local authorities were not completed till two years later, (1890, see p. 38 *sqq.*), but a few words of comment may find a place here. The scheme as it emerged from the House of Commons, though, no doubt, in view of the

"extreme difficulty of the adjustments between the two vast fields of Imperial and local taxation," an honest attempt to be just to both the tax-payer and the rate-payer, was not one with any promise of finality, nor was it free from disadvantages which became more apparent as years passed. Mr. Goschen no doubt intended that the several duties allocated to local taxation should be finally sundered from Imperial finance, and be regarded as local taxes. But they were still levied, and only alterable, by Parliament; and, as a matter of fact, it was found impossible to disentangle them from Imperial finance. It was difficult to deduce from Mr. Goschen's scheme any clear indication of the principles by which the future relations between the central and local authorities were to be governed. There appeared to be a tendency to enable the local authorities to finance themselves by means of fresh sources of taxation, to be placed exclusively at their disposal. As a matter of fact, owing to larger grants from outside sources being placed at their disposal, a relatively larger amount of funds spent on local purposes was withdrawn from local control, and local responsibility so far weakened; while, on the other hand, Parliamentary control was weakened by the definite surrender of these funds. Ingenious as it appeared, the new scheme was based on a fallacy in so far as it was imagined that the earmarking of particular taxes or portions of taxes, supposed to be contributed by a certain class of property or owners of property, and paying them to other accounts on their way to the Exchequer instead of drawing a certain number of millions from the Exchequer for the relief of the rate-payer, made

any difference to the tax-payer. The change would, indeed, have justified itself if, as Mr. Goschen decidedly hoped, the assignment of specific revenues had put a stop to further demands for the relief of the rate-payers. But the large additional resources (some £3,000,000 per annum) placed at the disposal of the local authorities had not been given in a manner likely to encourage economy. Former grants-in-aid had at least been paid in respect of specified services and accompanied by conditions, and formed in most cases only a proportion of the cost of each service. This new revenue was a sum varying in amount and growing with the national revenue, and was handed over in general relief of rates, without any ear-marking to those national services which, performed and paid for by the local authorities, are the only real justification for subventions from the National Exchequer. So unsound a proceeding was certain to lead to the fresh demands and fresh grants, which eventually produced the Royal Commission on Local Taxation and the crushing condemnation conveyed in the recommendations of some at least of its members (see the Report signed by Sir E. Hamilton and Sir G. H. Murray). Enough, however, has probably been said to give an idea of the principles on which this first serious attempt to deal with the question as a whole proceeded, and to follow subsequent developments as they arise.

Turning to the finance of the year, the surplus on the basis of existing arrangements was, as we have seen, estimated at £2,377,000. Certain transitional arrangements were to be made for local purposes in England to tide over the period till the Local Government Act

was to come into force. The only grant-in-aid to be withdrawn in 1888-9 was that in aid of roads in England and Scotland (£295,000). One-third of the probate duty for the year was to be given up (£1,420,000), which was to go to England, Scotland and Ireland, in the proportions of 80 per cent., 11 per cent. and 9 per cent., and the following new license duties were to be created at once for their benefit:

(1) The van and wheel tax—£1 on any vehicle over 10 cwt. in weight, and 2s. 6d. per wheel on all carts over 2 cwt.—£384,000 (£84,000 to Scotland).

(2) A horse duty—£1 on every pleasure horse, £5 on race-horses and £15 on horse-dealers—£540,000 (England).

The surrender of one-third of the probate duty, minus the gain of £50,000 from the increased succession duties, reduced the originally estimated surplus to £1,302,000; and three small remissions, a reorganization of the carriage-duty rates to the present scale, costing £30,000; abolition of the hawker's license duty, £25,000, (subsequently reduced by one-half only), and the exemption from Schedule A of the income-tax of lands which were *bona fide* worked by their owners for husbandry, whether they had tried to let them or not, reduced the balance again to £1,227,000. But Mr. Goschen was not yet satisfied. In accordance with views as to the incidence of the income-tax to which he had more than once given expression, he was anxious to reduce the rate to 6d., which would require £1,550,000. He therefore turned to that "promising field," the stamp duties; and brought forward a variety of minor changes

calculated to provide £410,000, while an additional £125,000 was found by tax on bottled wines, independent of alcoholic strength, which would chiefly affect the "finer class of sparkling wines." The balance thus raised to £1,762,000 could then provide for the reduction of the income-tax and leave an estimated surplus of £212,000.

Some comment has already been made on the local taxation arrangements, and it may be added generally that this budget shews in a marked way both the merits and defects of Mr. Goschen's finance. The ingenuity of the attempt to meet demands from many quarters at once, and to find fresh sources of taxation without having recourse to taxation levied upon articles of universal consumption, on the one hand, and, on the other, upon the earnings of business or professional men, was very noticeable; as well as an appreciation of the issues involved in any remodelling of the system. But it was also characteristic that none of these issues were handled in a bold and comprehensive spirit. The death duties, the stamp duties, and the income-tax all clearly demanded careful reorganization, but none of these taxes was treated in more than a tentative and partial fashion. The practical impossibility of dealing with these questions in a budget already so overloaded with difficult subjects as these must be admitted. But the piece-meal character of the proposals made criticism itself ineffective, though Mr. Gladstone pointedly remarked, "I have had some experience in doing what the Chancellor of the Exchequer has had to do with respect to the income-tax; that is, endeavouring to make up by a multitude and variety of small and, as

it is hoped, insensible imposts a considerable sum such as he has ingeniously put together, in order to enable him to part with one penny in the income-tax." . . . "Of the new taxes he had little to say that would be encouraging," and he threw doubt on the propriety of reviving and extending such taxes as these on locomotion.

A further criticism was to the effect that this was the first time that a surplus of such magnitude had afforded no relief to the consumer, and that the scheme of the budget was mainly one for the relief of property. "A large proportion of what we are now giving in relief of rates will in part ultimately, and at a very early date, go in relief of the burden now paid by property." It was a measure "too much in favour of property and too little in favour of the general consumer." Mr. Goschen's reply was that it was no doubt a rate-payers' budget, and that in relieving the rate-payers he was relieving the general body of consumers. But he dwelt on the fact that the taxation per head on consumable articles had fallen from £1 6s. 1d., in 1876-7, to £1 2s. 3d., in 1887-8, and the total sum raised from £43,300,000 to £41,370,000; while taxation of "property" had risen from £17,000,000 to £29,500,000.

As often happens, however, in such cases the public fastened on one of the least important features of the new proposals for attack, but one to which Mr. Goschen clung with much obstinacy, the proposal for redistributing the burden of rates by making those who used the roads contribute to their maintenance through the new license duties, the wheel and van tax and the horse tax. The agitation proceeded in

the main from the wheelwrights and carriers, and became very active as time went on in Liverpool and other great Lancashire towns, in London, and finally in Glasgow. Concessions were made but failed to stem the opposition, and in the end Mr. Goschen yielded to the clamour and abandoned the measure at the close of the session in November. The loss of the wheel and van tax involved that of the tax on pleasure horses, an excellent proposal which would have produced half a million for the rate-payers and which had excited no visible opposition. But these proposals had been introduced in a separate bill, and did not affect the Imperial budget.

MR GOSCHEN'S THIRD BUDGET, 1889-90.

April 15, 1889.

"TWICE," said Mr. Goschen on this occasion, "it has fallen to my lot to have a prospective surplus within my grasp; twice it has eluded me." Last year local taxation had robbed him of it, and this year demands for national defence had come upon him in addition. Lord George Hamilton had on March 7th introduced a new naval programme according to which seventy new vessels were to be constructed at a cost of £21,500,000. Of this, £10,000,000 was to be provided in a manner to be explained by the Chancellor of the Exchequer, and the remainder by an addition to the Naval estimates for four years (see p. 64). Thus, Mr. Goschen had to meet in round figures £1½ million additional for local taxation, nearly another £1½ million increase of the ordinary Navy and Army

estimates—in all £4½ million of new demands, as compared with the preceding year.

There was nothing so noteworthy in Mr. Goschen's review of the preceding year (1888-9), as the fact that it had falsified gloomy predictions and produced the largest surplus since 1877-9, viz. £2,798,000. Mr. Goschen took credit for this as being due to good administration in avoiding supplementary estimates, and to "prudence in forecasting revenue"; and prided himself, in reply to the attacks which had been made on him for the reduction of the sinking fund, on the fact that in two years (with the aid of his surpluses) £15,000,000 had been applied to the reduction of the National Debt, "a larger sum than had ever before, except upon two occasions, been devoted to this object in an equal period of time." The debt itself stood at £697,604,295, less than it had been for eighty years. (See *Hansard*, vol. 135, pp. 515-6.)

The balances, however, had declined from £7,647,000 to £5,592,000, or by a sum of £2,055,000, which represented the payments made out of the surplus of the previous year in connection with the conversion of the debt; not technically, he admitted, a diminution of debt, but far more effective, considering its object, in diminishing its burden than an ordinary cancellation of debt. (This sum, though not provided for in the estimates, was met out of revenue.)

These considerations did not, however, affect the criticism made by Sir William Harcourt and others when they came to deal with Mr. Goschen's fresh proposals about the debt, and Sir William, moreover, followed by Mr. Sydney Buxton, strongly condemned the means by which the surpluses were produced,

namely, as he contended, by incorrect estimates. "You can manufacture a surplus to any extent by that process," he observed, "but if your estimates are reasonably correct you ought never to exceed, say, half a million surplus. So far as it results in the reduction of debt (by means of the old sinking fund), I am glad, but surely this is not the proper way in which it should be done. It ought to be done by correct estimates of revenue and expenditure."

A very interesting section of Mr. Goschen's speech was devoted to the review of the revenue and expenditure of the previous year. Such a task shewed him perhaps at his best, and in analysing such figures as those of the revenue from drinks, alcoholic and non-alcoholic, or the "gloomy but fiscally attractive subject of the death duties," he gave the impression of extracting every ounce of meaning which they contained. None of his successors have approached him in this important branch of the budget speech, which has of late been more and more neglected. It happened that the yield of tea, tobacco, wine and spirits had shown no very encouraging results, while the direct taxes, income-tax and "stamps," had substantially exceeded the estimates, the latter item being a "real and satisfactory proof of growing business and improving prosperity." For five years the productiveness of indirect taxes had not increased at all, while the yield of direct taxation had increased by a little over five per cent., all the necessary adjustments (omission of new taxes, etc.) having been made in the calculations. From these facts Mr. Goschen again drew the conclusion that it was no longer safe to trust for revenue to a few great articles of

consumption, and he stated his firm conviction that he was not justified in " making such a reckless use of the income-tax " as might be necessary to make both ends meet.

The expenditure for the coming year, 1889-90, was estimated as follows. Most of the items stood at about the same figure as before, except that the Army estimates were increased by £606,000 over the estimate for the preceding year, and the Navy estimates by £602,000; while the Civil Service estimates showed a nominal decrease of £2,111,000, due to the cessation of grants to the local authorities, which would be more than balanced by the loss on the other side of the account in respect of the surrender to those authorities of licenses, etc.

So much for the Supply services. The Consolidated Fund services were increased by £1,413,000, a sum which was more than accounted for by the Navy Annuity of £1,430,000 under the Naval Defence Act. The total would be £86,967,000, an increase of £384,000.

Mr. Goschen again estimated the main items of revenue at a most cautious figure; general stamps, for instance, at only £140,000 more than last year's receipts, and income-tax at £100,000 (or, allowing, as he put it, for the collection of arrears at 6d., instead of 7d., really at about £410,000 more). In view of the inelasticity of the great dutiable articles of consumption, he asked himself how far he was justified in speculating on that increase of business of which there were signs, but which might disappoint his calculation, and lead to " what he trusted he might never have to submit to the Committee, a deficit instead of

a surplus." In that spirit, and allowing for the surrender of licenses and probate duty to the local authorities, he placed the total revenue at £85,050,000, or £3,423,000 less than last year's Exchequer receipts, the surrender of taxes making a total of £3,680,000, and a real increase of £260,000 in revenue only being estimated for.

Putting the estimated expenditure and revenue together, a deficiency was shown of £1,917,000, or about the exact additional burden imposed by the Naval Defence Bill.

The first method by which Mr. Goschen proceeded to meet this deficiency and provide a margin was to apply to revenue the £1,000,000 to be saved by the conversion scheme, which in future years would be £1,500,000, and in the absence of legislation for the purpose of so applying it would have gone automatically to the reduction of debt. He then again reduced the total fixed charge for debt, this time from £26,000,000 to £25,000,000; but, as he stated, there would be as much devoted to the reduction of debt out of the smaller sum as there had been out of the larger sum before the conversion. In future years he promised to allow the additional £500,000 to go, as it automatically would do, in reduction of debt. He defended his proposal to give only £500,000 out of the saving from conversion to the reduction of debt by stating that Mr. Childers had proposed in his conversion scheme of 1884 that the whole saving should go in relief of taxation.

There remained a deficiency of £917,000, and to meet this he made two proposals, which created some controversy, and which were more acceptable on the

Liberal side of the House than on his own. The first was the establishment of a new estate duty of 1 per cent. on all estates above £10,000 in value, whether realty or personalty, *i.e.* on the "capital value when the property passes absolutely, and, in the case of settled realty or settled personalty, on the interest actually taken by a successor." As he subsequently stated, it would be collected, as regarded personalty, like the probate duty, and, as regarded realty, like the succession duty; and it would bring in £800,000 in the current year and £1,000,000 in a full year.

The second proposal was to raise £300,000 additional out of the beer duty, by taking the duty of 6s. 3d. on the barrel of thirty-six gallons of beer at the specific gravity of 1,055 (Mr. Gladstone's original proposal in 1880), instead of a thirty-six gallon of the specific gravity of 1,057 as actually paid. This would increase the cost of beer, if it could be thrown on the consumer, by $\frac{1}{14}$ of 1d. per gallon, an infinitesimal addition.

The result of these various proposals would be to leave him with an estimated surplus of £183,000.

The discussions on this budget, which was carried without alteration or very serious criticism, raised some interesting points. The Opposition, and among them Mr. Sydney Buxton, took Mr. Goschen severely to task for his fresh infringement of the new sinking fund, and there was much force in the comment that the annual fixed charge for debt stood at £4,000,000 less than thirty years ago, when the resources of the country were far inferior and the burden of taxation, including that of the income-tax, greater than at the present time. But if Mr. Goschen's action in dealing with the new sinking fund in the two previous budgets

was difficult to defend when his object was merely to reduce the income tax from 8d. to 6d., he had on this occasion some justification in the increased demands for national defence. The Naval Defence Act of this year marked a great and ominous stage in the growth of naval and military expenditure, which had been initiated by Lord Northbrook in 1884. That expenditure is one of the key-notes of the period with which we are concerned; it had so far been rather forced upon successive Governments by public opinion, which had become seriously alarmed as to the sufficiency of the Navy, than initiated by ministers in a spirit of extravagance as Sir William Harcourt's criticism implied; and the effect upon the attitude of the House in regard to questions of taxation was marked and immediate. Mr. Goschen on this occasion again remarked: "I say, and I say it with some trepidation, and knowing the enormous difficulty which the discovery of new sources of taxation involves, that it is better service to the State to increase the number of sources of revenue than to attempt to find simplicity. . . . I will not now lay down any doctrine as to where taxation ought to be imposed, but I say you have pushed simplicity of taxation up to a point beyond which you cannot carry it without danger." Sir William Harcourt in reply struck no doubtful note when he described this as one of the most "alarming sentiments" he had ever heard from a Chancellor of the Exchequer in that House. "It seems," he said, "we are to revise the financial policy of many years, which has been so beneficial to the people of this country, not in regard to the sugar duty only, but in the principle of general taxation. The great object

of that policy was in 1841, according to Sir Robert Peel, to diminish the taxed articles in use among the people of this country, and after the lapse of all these years since 1841 we have, I think, for the first time a Chancellor of the Exchequer standing up in the House of Commons holding out a prospect of imposing taxation on other and more numerous articles than those taxed hitherto."

In the two opposing points of view, we have all the controversies of the coming years clearly foreshadowed. Mr. Goschen certainly never anticipated the elasticity which yet remained to the old indirect sources of taxation, nor the possibilities which lay in the development of direct taxation. But Sir William Harcourt, with his more optimistic disposition, and the greater freedom which his position in the Liberal party gave him for dealing with direct taxation, would have been equally astonished if he could have foreseen the enormous growth of expenditure with which the old "beneficial" financial policy of the country was to prove itself capable of dealing. Some private members pushed their analysis of the situation further than the leaders; notably Mr. (afterwards Sir George) Bartley, who raised the whole question of the incidence of the burden of taxation upon the different classes of the community in a very clear and interesting fashion. He asked, for instance, whether the poorer classes contributed more or less than the average normal amount, which he put at 1s. 2d. in the £ all round. He thought that the system of imperial taxation required revision, in the sense of redressing such anomalies and such injustice as might be shewn to exist. Mr. Picton took up the question on similar,

though less statistical, lines, and pressed strongly for a reduction of the tea duty. To this particular request Mr. Goschen had a clear answer, that the tea duty was a "poll-tax on a very low scale," without which a large proportion of the population would pay nothing whatever to the revenue, and that with reference to the relative relief given in direct and indirect taxation the tea duty had stood at its actual figure of 6d. per lb. since 1866, while the income-tax had been reduced from 6d. to 5d., from 5d. to 4d. and from 4d. to 3d., under Mr. Gladstone, without the tea duty having been touched. Mr. Goschen admitted that the questions of incidence thus opened up were of "vast importance"; and Sir William Harcourt said that such questions were going to "command the keenest interest in the future." But they both rather deprecated discussion upon them in the House, and it was to be long indeed before any considered or systematic treatment of the problem was to enlighten debates on finance, or give a meaning to successive adjustments of taxation in one direction or another.

The only other point of permanent interest which emerged from these debates was in relation to the new estate duty. The Opposition professed to see in the provision that it should apply only to estates of over £10,000 in value, an application of the principle of graduation which existed in a very rudimentary form in the income-tax. Some of the more Tory supporters of the Government, such as the late Mr. James Lowther, scented danger in the proposal, and not without reason. Mr. Goschen himself defended the proposal on the analogy of the income-tax abatement limit. Mr. Gladstone described it as the introduction

of a "great novelty into our taxing system," and, while stating that he could understand that "there was no injustice in the principle of what is called graduated taxation," added that he "had never been able to observe any absolute rule by means of which that graduation was to be kept within bounds." "It is a characteristic of stones of this kind that, 'when set rolling,' they acquire the peculiar property of rolling faster and faster." Whatever exaggeration there may have been in such comments, there is no doubt that this measure by a Conservative government paved the way for Sir William Harcourt's drastic reform, not only in this respect, but also from the fact that it again brought prominently forward the question of the inequality of the treatment of realty and personalty under the death duties. Mr. Gladstone and many other speakers pressed this latter point, and pointed out the anomalies created by the new duty. Mr. Goschen relied on *tu quoque* argument derived from the proposals of the Liberal budget in 1885, and defended the more favourable treatment of realty under these duties by the unfair taxation of Schedule A in the income-tax, which caused the landowner to pay on as much as 20 per cent. more than he received. But his business after all was, "as Chancellor of the Exchequer, not so much to reform the death duties as to get £800,000 into the Exchequer." If he had entertained a more ambitious idea when he came into office, it was abundantly clear by this time that it would be impossible for a Chancellor of the Exchequer in a Unionist government to deal adequately with this great question. Finally, it may be noted that the question of light gold, much urged and

promised in the last two sessions, was dealt with in this session.

Mr. Goschen's discussion of the problems connected with the death duties illustrated his profound appreciation of all the points at issue; but his political position, and perhaps his temperament, debarred him once again from effective action. This speech, the best in form which he had yet delivered, concluded with a striking passage in which he repudiated the charges of having in his budgets prepared "finicking" measures, of "want of breadth in his finance," of "harassing various interests by the imposition of small new taxes." In a balance-sheet of his deeds and misdeeds he thus summed up the former. "I have reduced the tobacco duty by £600,000. I have reduced the income-tax by £4,000,000. I have given £2,500,000 in relief of local taxation. I have provided £2,000,000 extra for national defence. I have converted upwards of £500,000,000 of consols, securing an annual saving in interest of £1,400,000 at once and £2,800,000 bye-and-bye, and have been able to pay off more debt during my two financial years than has ever been paid off before in the same two successive occasions. Surely the scale of these operations is on no petty scale."

MR GOSCHEN'S FOURTH BUDGET, 1890-91.

April 17, 1890.

At last Mr. Goschen had the opportunity, with a third large prospective surplus, of dealing with taxation unfettered by demands from his colleagues. The

result of the previous year had been highly satisfactory. In spite of heavy supplementary estimates (£756,000 net, of which the Navy accounted for £350,000 and the Civil Service for £267,000) the estimated expenditure of £85,967,000 was only exceeded by £116,000; but the revenue shewed a remarkable expansion, having exceeded the estimate by more than £3,000,000. Mr. Goschen on this occasion made a not uncalled for defence against the reproach that he had taken too gloomy a view of the estimates at the beginning of the year, descanting on the impossibility of forecasting to a nicety a revenue amounting to £90,000,000 a year, and on the duty of a Chancellor of the Exchequer to make sure, as far as human expectation could go, that he should be on the right side at the end of the year. The cause of the surplus on this occasion could hardly, as Sir William Harcourt himself admitted, have been foreseen, as £2,500,000 out of the surplus had been due to absolutely extraordinary circumstances. The first of these was a "rush to alcohol," which accounted for £1,800,000 of the increase. "Some men rushed to the beer barrel, others to the spirit bottle, and others to the decanter"; but the greatest increase (12 per cent.) had been in the article of rum, and the result was the "stupendous, the sensational," figures which recalled the great drinking year of 1875-6, and made a deep impression on Mr. Goschen's mind. The total net receipts from all alcoholic drinks had reached a total of £29,265,000. The net receipts from all consumable articles, except beer, spirits and wine, had fallen short of the estimates by £130,000. There had been an increase of £152,000 on tobacco,

but tea had shewn a decline mainly owing to dealers having refrained from taking tea out of bond in anticipation of a reduction of the duty. Customs had shewn an increase of £453,000 and excise of £1,326,000 over the yield for 1888-9, both due, as explained, to drink. The new estate duty had yielded almost what had been estimated, but general stamps, "that sure index of prosperity," had increased by £357,000 above the estimate, the new companies capital duty having been so unexpectedly successful as to cause Mr. Goschen to regret that he had not fixed it at 2 per cent. instead of 1 per cent. Income-tax had expanded to the extent of £220,000 over the estimate. The second windfall had arisen from the increased profits of the Mint on the circulation of silver, which amounted to £774,000. There had been complaints of an insufficient silver circulation, the "conduit pipes by which it passes into circulation seemed to be stopped," and it had been discovered that the ¼ per cent. charge on the freight of silver from London to the provinces, and from the Bank of England to provincial banks, had prevented the flow of silver coins. Mr. Goschen had authorized the payment of this charge by the State with the above excellent results. The surplus, finally, stood at £3,221,000; and in this connection Mr. Goschen observed that we had been diminishing our debt liabilities "by leaps and bounds," and that the amount of debt reduced in three years had been £23,323,000, the "largest amount that the debt had ever been reduced in three consecutive years."

For the coming year the expenditure was finally put at a total of £87,377,000 after various small additions

made to the estimates presented, the chief excess being due to the Army estimates.

In estimating the revenue Mr. Goschen again dwelt on the need for caution, and would not count on that progressive prosperity which had characterized "a part" of the past financial year. He did not, for instance, estimate for any substantial increase in alcoholic beverages over the results of the past year, and general stamps were put rather lower. The death duties, however, as the new estate duty would be in operation for a whole year, were increased by £621,000; and the income-tax, of which the produce per penny was steadily rising, by £430,000.

On the whole, he built upon an increase of £1,102,000 over the Exchequer receipts of the previous year, which would give him a surplus to dispose of amounting to £3,549,000.

Various small calls upon him for the coming year —for barracks £300,000,[1] volunteer equipment £100,000, postage rates to India and the Colonies (reduced to 2½d.) £80,000, stamp duty on apprenticeship reduced to 2s. 6d., a change in the income-tax, allowing losses under one schedule to be set off against the profits of another, and the remission of the duty on gold and silver plate, £200,000—reduced the available surplus to £2,869,000. Mr. Goschen then came to the larger remissions he proposed to make, and on the ground that the greater part of his surplus had been produced by the increase of the taxes on

[1] A bill was introduced to authorize the expenditure of £4,100,000 on barracks. Power was taken for borrowing in future years, but the money to be spent in the present financial year, viz. £300,000, was to come out of revenue.

alcoholic beverages, he determined that the main portion of the surplus should go in relief of indirect taxation; that "tipplers should relieve tea," and that the duty therefore should be reduced by 2d. per lb. He hoped the consumers would profit and not the middleman.

This would absorb £1,500,000. £210,000 would be absorbed by the reduction of the duty on currants from 7s. to 2s. per cwt. Currants came principally from Greece, and that country in return made a substantial offer of reduction on British manufactured goods. It was an interesting example of a tariff bargain, made possible by the manipulation of our revenue duties—perhaps the last in our commercial history—and it passed with little notice, favourable or the reverse, though the principle was of sufficient importance to have attracted some comment. As regarded beer, the change in the standard of gravity had practically increased the duty by 3d. per barrel, and this increase Mr. Goschen was now prepared to give up as far as Imperial purposes were concerned, at a further cost of £386,000. The remaining £773,000 enabled him further to graduate the inhabited house duty on houses of the annual value of £20 to £60, and thus afford some much needed relief to the class which he described as the class just above the working class —the "class that begins to wear the black coat"— with incomes ranging from £150 to £400 per annum. This, with other slight alterations in the tax, would cost £540,000, leaving a balance of £233,000.

If the Chancellor of the Exchequer had stopped here, he would have avoided the most contentious and, as it proved, the most embarrassing part of his

proposals for the year. He explained that the public had hardly realized the magnitude of the relief he had afforded by the measure of 1888 to the local exchequer, amounting, as he said, to £2,750,000 per annum. The increased yield of one-half of the probate duty had in two years produced the exact sum which the abortive wheel and van tax would have supplied. But the county councils had continually pressed for the £800,000 which that tax and the horse tax had been calculated to produce, and to the opposition to which Mr. Goschen had been obliged to yield in the session of 1888. Although he had always repudiated any pledge to replace this sum, he now desired to start them "thoroughly satisfied as to their financial position," and thought he saw an opportunity of combining this object with others. One of these was to place the police superannuation funds, both in London and in the country, in a solvent position. Another was to make a start in the diminution of the "enormous multitude of licenses which had so largely contributed to the drink bill of the nation," a matter which had genuinely perturbed the Government. To accomplish these objects he would require an additional £1,250,000, and the speech, therefore, concluded with what its author described as a "supplementary budget, opening up and touching a large number of questions and endeavouring to solve some of them without taking any violent measures." He placed an additional 6d. a gallon on spirits (£918,000), and revived the 3d. per barrel on beer, of which he had relieved the brewing interest in the Imperial Budget (£386,000). Of the total amount thus further to be assigned to local taxation,

viz. £1,304,000 (divisible according to the proportion fixed for probate duty among the three kingdoms), £438,000 was to be appropriated to the purchase of licenses which the county authorities might desire to extinguish, and which would not be extinguished by the ordinary process of non-renewal for the authorized causes. Coupled with this there was to be suspension of the issue of any fresh licenses, unless in exceptional cases, until the whole question could be dealt with. The remainder of the money, or the bulk of it, was to be given to the county councils conditionally on their dealing satisfactorily with the police superannuation funds. But the distribution of the funds in Scotland and Ireland would necessarily have to be assigned on a different footing, to be explained on a subsequent occasion.

If Mr. Goschen had imagined that these proposals would slip through without serious opposition, he made a grave miscalculation. The budget as a whole was received at first, both in Parliament and in the Press, with marked favour. It was described as "a great budget, a popular budget, and one which vied with the famous budgets of old." But further consideration did not sustain this verdict. From the Liberal side of the House criticism soon arose. It was said that the Chancellor of the Exchequer should have dealt with a smaller number of subjects and given them thorough relief. He was asked why he had not altogether abolished either the duty on tea, or the house duty with its confused incidence, or the whole of the duty on currants. His answer was that he was opposed to "diminishing too much the number of our sources of revenue," and that he desired to keep the

"skeleton of our regiments intact" as a national reserve in case of emergency. He had hinted more than once at the necessity of a thorough reconstruction of the death duties, and he was pressed to act on these suggestions and to remedy the inequality between the taxation of real and personal property; and his reply that the real readjustment of the death duties would require almost a whole session to itself and necessitate a reconstruction of the income-tax in certain respects, though valid in a session which was required for an Irish Land Purchase Bill, was not one which really explained his reluctance to remodel in a comprehensive sense any of the large groups of taxes. As it was, this budget was open, like Mr. Goschen's previous budgets, to the criticism that he had "frittered away a great opportunity," and by attempting to do too many things had done nothing thoroughly; that it "aimed at too much and did too little." One speaker remarked that "his Right Hon. friend reminded him of a man who, having inherited a fair estate, wakes up some morning to find it gone though he cannot lay his hand on any one great extravagance, all having disappeared in a multitude of petty excesses" (H. S. King). Sir William Harcourt, referring to Mr. Goschen's desire to retain the skeleton of a tax, remarked that he "preferred its corpse, and to see it well buried, as we have buried many a tax in former days." He suggested that it would have been better to have reduced the tea duty and abolished the house tax. Finally, the Chancellor was taunted with the disproportionate relief which his budgets had given to direct, as compared with indirect, taxation.

Still graver criticisms were raised by Mr. Goschen's

dealings with the debt and with local taxation. One of his strongest points, as Chancellor of the Exchequer, was his mastery of the intricacies of finance, but his technical knowledge on such points often only dazzled when it should have enlightened the House of Commons. So with his exposition of the state of the balances in this speech. He had dwelt with the most legitimate satisfaction on the completion of the conversion scheme by the "gigantic operations" connected with it, which had been carried out "without a hitch," the fourteen millions of outstanding Consols having been dealt with; and he proceeded to explain why the balances on March 31st, 1890, were less by £372,000 than on March 31st, 1889, in spite of the surplus of £3,221,000 having been received. He had taken large sums from the balances for the redemption and conversion of the debt (£1,678,000), and for the purposes of the Imperial Defence Act (£500,000 War Office and £337,000 Admiralty), instead of borrowing; but he promised that the balances should not be permanently depleted and should be replaced by future borrowing. It was probably impossible to make these banking details clear to the House of Commons. At all events, his arrangements were the subject of severe strictures by Mr. Shaw Lefevre and others, upon whom the various items of "extraordinary expenditure" for the services, the raising of money under the Naval Defence Act, the Imperial Defence Act and the Barracks Act, partly by loan, partly by the consolidated fund, and partly out of balances, not unnaturally produced a sense of confusion. Mr. Lefevre, in describing them, spoke of the various operations, methods, shifts and devices

by which provision for expenditure within the year is avoided. He put the borrowings in the year (mostly, however, over short periods) at £4,674,000, practically the amount which, under Northcote's and Childers' provisions, should be paid for repayment of debt. He endeavoured to shew that what this really amounted to was a suspension of the sinking fund for the year. He spoke with alarm on the growth of naval and military expenditure (of which Mr. Goschen had spoken as needing no apology) amounting to £38,163,000, or £7,000,000 more than was ever spent before in any year in time of peace.

On local finance Sir William Harcourt took exception to treating the increase of the spirit duty as anything else than Imperial taxation, and called it an audacious fallacy "to say that the tax upon spirits was a tax levied upon the publican and was to be disposed of for the benefit of the publican." In some form or other it will ultimately be paid by the consumer and therefore it should be regarded, like any other tax, as a consumers' tax. It was, in truth, beginning to be perceived that the principle of allocating certain portions of Imperial taxes to local purposes was open to objection, not only on the score of encouraging extravagance in local bodies, but also because of the complications which it had introduced into Imperial finance. Mr. H. H. Fowler, indeed, went so far as to say that the new principle had all the vices and none of the virtues of the old system; it mixed up Imperial and local taxation, fettered the action of Parliament with respect to the revenue, and unnecessarily confined local action in more than one direction. Mr. Goschen maintained

in reply that it was at all events an improvement on the old system of making subventions, the amount of which depended to a great extent upon the extravagance of the local authorities. "With all imperfections," he went on, "I do not see that the mode of giving local assistance by hypothecating certain Imperial revenues can be improved on by any system of local taxation. If anyone can discover an excellent local tax which will be equitable and acceptable, he will render a service, but I have not heard of such a tax being suggested."

The allocation of the new duties between the three kingdoms raised considerable opposition on the part of members from Scotland and Ireland, and involved the House in the discussion, among other points, on the alleged over-taxation of Ireland, which ended in a promise on the part of the Government to grant a select committee on the question. But it was the so-called "compensation clauses," the crux of the new local subvention, which caused the most violent controversy. The Customs and Inland Revenue Bill was read a second time on May 5th after a warm discussion, and carried through committee a few days later; but only on the condition that the clause imposing the new spirit duty and the other clauses connected with it should be postponed, on the ground that the House had not yet committed itself to the objects for which that duty was required. The Budget Bill was read the third time on May 23rd, after three weeks had been monopolized by this Bill and the Local Taxation Bill. The struggle over the compensation proposals was, therefore, resumed on the second reading of the Local Taxation Bill. The

discussion proceeded with various somewhat sensational incidents, including Mr. Caine's resignation and defeat at Barrow, and many demonstrations in London and the country in which temperance reformers and the followers of Mr. Gladstone united their forces in opposition to the measure; and it ended in a victory for the Opposition by the withdrawal, at the end of June, of the provisions for the creation of a fund for the purchase of licenses. On July 21st, Mr. Goschen explained the new Government plan for dealing with the "whisky money." As it was too late to introduce a bill to set up the machinery (which existed under the Welsh Intermediate Education Act for Wales) to apply the money in England for intermediate, technical and agricultural education, the unsatisfactory decision was arrived at to hand over the funds to the county councils for them to expend as they thought fit, but with a distinct intimation that charges would eventually be laid upon them for these educational purposes. Ireland's share would go half in assisting the erection of labourers' dwellings and half in assisting technical education, and in Scotland no reservation was attached to the grant. The Bill was then passed, after some further opposition from Scotch members, who desired that the money should go to complete the system of free education.[1]

The Land Purchase Bill for Ireland had also to be

[1] The final allocation was as follows:

1. In England £300,000 was to be applied towards Police Superannuation and the residue £743,200 to be distributed among County and County Borough Funds for the purpose of Technical Instruction.

2. In Scotland, £40,000 was to go for Police Superannuation, £40,000 in further relief of school fees in the compulsory standards,

dropped, and the prospects of the Government looked doubtful. But the Parnell-O'Shea scandal and the Baring crisis in the autumn had the effect of giving them a new lease of life.

MR. GOSCHEN'S FIFTH BUDGET, 1891-2.

April 23, 1891.

Mr. Goschen began with something like an apology for the surplus of £1,756,000 which he had to announce. Speaking as he was of a year which, after the closest enquiry, he felt justified in describing as one which had topped all of them in regard to the profits of the employer and the wages of the employed, and which, like his previous year of office, had been undisturbed by the crises of big or little wars, it may be confessed that this announcement involved some admission of undue caution, and even of pessimism, in the framing of the estimates which had added another to his record of surpluses. He made the most of certain ominous signs of trouble which he had detected a year earlier in the relations between capital and labour and in the region of high finance; but though the Baring crisis had indeed convulsed the world of finance, it had been tided over without disturbing the prosperity of the country, and the threat of serious

£15,000 in aid of the cost of Medical Officers and Sanitary Inspectors, and the residue £48,440 to Counties and Burghs and Police Burghs for Technical Education.

3. In Ireland, £78,000 was to go to the Commissioners of National Education as a contribution to the salaries of National School Teachers, and the residue £39,360 to the Intermediate Education Board for results, fees, prizes and exhibitions.

strikes had happily proved abortive. The revenue had exceeded the estimate by £1,879,000 (only 2 per cent., as he put it, on the total revenue); and of this amount £900,000 was accounted for by the increase in the revenue from alcohol, which reached a total of 30 millions or £720,000 more than that of the preceding year, not including increases for local taxation. The bulk of this increase had been in British and foreign spirits and especially in rum, and the ratio of increase in consumption had been larger in England than in Scotland and Ireland. Customs had exceeded the estimates by £644,000,[1] the loss on the 2d. taken off tea having, owing to increased consumption, fallen short of the estimate by nearly half a million; and the tobacco receipts had exceeded those of the preceding year by £474,000. The non-tax revenue had given a surplus over the estimate of £401,000; and only stamps, owing to the financial crisis in the city, had fallen short of a cautious estimate. The figures bore eloquent testimony to the increased consuming power of all classes and not least of the working classes, and completely belied Mr. Goschen's reiterated expression of the fear that the revenue from indirect taxation especially was losing its elasticity.

What was the spirit, he now asked, in which he should frame his estimate of revenue? He did not think that the general prosperity had been greatly

[1] Customs increase £644,000. Only £364,000 appears in the tables, for, as Mr. Goschen explained, £280,000 was due to a change in methylation of spirit in bond. Previously this spirit had paid duty to the Customs, and the Inland Revenue gave drawback thereon. The £280,000, therefore, appears in the Inland Revenue account, that department not having to pay drawbacks to that amount.

affected by the breakdown in the City, and he was able to give a glowing account, based on careful statistics, of the wealth of the country. He took the two years, 1887 and 1890, the first having dropped out of the average for income-tax computation and the latter having taken its place, for comparison. The bankers' clearings in 1887 had been 6,077 millions, and in 1890 7,801 millions. Profits of eighteen provincial banks, which had been £882,000 in 1887, were £1,122,000 in 1890. The railways had carried more passengers, more merchandise, more minerals and more live stock; more cotton had been consumed in the cotton industry than ever before. In 1889 the value of coal exported was £14,782,000 and £19,020,000 in 1890—a rise of 35·4 per cent. Wages had shared in the prosperity; in one set of collieries they had risen from 1s. 9d. per ton in 1887, to 2s. 4d. per ton in 1890, and the total increase of wages in the coal trade had increased by £6,000,000 in five years. In view of these facts, Mr Goschen felt justified in estimating for an increase of £500,000 over the previous year's Exchequer receipts in the yield of the income-tax (now £2,300,000 per penny). But in spite of the actual higher rates of wages, in which he did not foresee decline, he was not prepared, in view, among other things, of the possible effects of the M'Kinley tariff, to expect any increase in the consumption of dutiable articles beyond the 2 per cent. at which he estimated the normal increase of population, together with the effect of three extra tax-paying days owing to leap year and the absence of an Easter within the financial year. He placed the total revenue at £90,430,000; and the expenditure, including the supplementary estimate of £125,000

due to the continuation of relief of distress in Ireland, at £88,444,000; and the estimated surplus therefore closely approached £2,000,000.

After some of the usual rather painfully jocose remarks about colleagues who were "despoilers of the public purse," he referred to the various great tasks to which he was invited and which, it may be added, he had himself contemplated hopefully in his first budget. Such enterprises, however, required both a surplus of money and a surplus of time. The reorganization of the death duties and of the income-tax would each require a session. Mr. Gladstone, indeed, interjected, as regarded the income-tax, "a century;" and his own experiences had warned him of the pitfalls into which he might be led by any "precocious passion for the redress of anomalies" in the stamp duties, though he announced a bill for the consolidation of the existing law.

Free or assisted education was the principal measure of the session, a triumph for Mr. Chamberlain as an outside supporter of the Government, and Mr. Goschen decided that his surplus should go to carry out this policy.[1] In the current year, however, only about £1,000,000 would be required for this purpose; and the remaining £900,000 of the surplus was allocated so as not to mortgage this sum in future years—£500,000 to the construction of barracks (thus avoiding recourse to a loan), and £400,000 to the withdrawal of the light gold from the circulation.

It was a simple budget maintaining taxation as it stood; the statement was in itself highly satisfactory;

[1] The proposals were explained to the House of Commons by Sir William Hart Dyke on June 8, 1891.

but an opposition with a general election coming at last into sight could not afford to weaken its attitude, and in the absence of fresh contentious matter in the budget speech a general attack developed on Mr. Goschen's financial policy, the text of which was supplied by his attempt to set forth the expenditure which had been incurred out of loans during his term of office.

In giving a detailed account of the expenditure which was being incurred under the Barracks Act, the Naval Defence Act and the Imperial Defence Act, a subject on which he admitted that much confusion existed, he touched on the various points which had been raised by Mr. Shaw Lefevre in the preceding session, such as the plans for utilizing the windfall of the additional revenue from the Suez Canal shares for the repayment of the loan under the last-named Act, and the method which had been adopted under the Naval Defence Act for carrying the balances not expended in previous years to a Naval Defence account. He offered a sound defence of this arrangement as a matter of business. As subsequently appeared, however, the confusion was not cleared up either by this statement or by the return for which Mr. Lefevre had moved in the last session. Nor did he succeed by his statement of the position of the National Debt in forestalling criticism, partly factious but partly justifiable. During his four years of office he had by annuities, and by the new and old sinking fund, paid off £30,939,000, or an average of £7,735,000 per annum, while the reduction of the charge for interest amounted to £1,785,000. Notwithstanding the reduction of the sinking fund from £28,000,000 to £25,000,000, "we

were practically able to pay off as much debt now as in 1886." He compared the repayment of debt for four years before 1885-6 and 1886-7, and after, and brought out a difference of £3,600,000 in favour of the last four years. He complained that he was attacked for the height at which the unfunded debt stood, without being given credit for the reduction of the funded debt. And, finally, he gave an authoritative account of the transfer of funds to the local authorities in 1890-1 (*Hansard*, 352, p. 1195),[1] and decided, to the disappointment of "the trade," to retain the additional beer and spirit duties, which had been devoted by a large proportion of the county councils in England to technical education.

In the postponed debate on the resolution which took place a few days later, Sir William Harcourt opened with a slashing attack on the whole of Mr. Goschen's financial policy. Some of his points may be quoted as an indication of the gravamen of the charges brought against it from the Liberal side. He contested Mr. Goschen's figures on the reduction of the debt (in which Mr. Fowler later in the debate followed him), and he complained of the "impossibility of understanding the public accounts and public finance

	England.	Scotland.	Ireland.	Total.
[1] Licence duties -	£3,014,316	£320,104	*Nil.**	£3,334,420
Probate duty -	2,105,774	199,085	99,542	2,404,401
Additional beer and spirit duties	781,065	242,692	211,835	1,235,592
Total -	£5,901,155	£761,881	£311,377	£6,974,413
* *Add* grant in lieu for Ireland				£40,000
				£7,014,413

The grants-in-aid in their last year had amounted to £2,944,000.

at the present time," and what he described as the "Right Hon. gentleman's three Budgets, first the old English Budget, next the new-fangled, continental, extraordinary Budget, and lastly the Local Subsidy Budget." He especially criticized the new loans, and complained that Mr. Goschen himself had been unable to clear up the confusion which these arrangements had introduced. "For the first time we have unexpended balances carried over from one year to another—a practice which one whole system of finance was intended to prevent. . . . All these things," he went on, "are very ingenious, but ingenuity is not what is most wanted in dealing with finance. You do not want a number of small devices for escaping the fact that you are spending more money than you have." He described the plan for liquidating one of these loans out of the future proceeds of the Suez Canal investment in very severe terms, quoting an expression from the *Economist* newspaper that the "Chancellor of the Exchequer had descended to arts which are humiliating to English finance, and which belong rather to the finances of bankrupt South American Republics." He attacked the local subsidies, not only for the confusion which they had introduced into the public accounts, but as having diverted from the Exchequer four millions which had, in relieving the rates, gone largely into the pockets of the landlords, and which might have enabled him to remove the remainder of the tea duty and the house duty; and he remarked that 1d. off the income-tax, which could also have been spared, would have gone further to relieve the landlord, if that were wanted, than anything he got from the rates. He

asserted, and other Liberal leaders repeated the assertion, that if it had not been for his borrowings Mr. Goschen would have had deficits instead of surpluses. "The Right Hon. gentleman was determined to have a surplus whether he had the money or not," and it is for this reason that he has "introduced the novelty of unexpended balances into English finance." It was "post-obit finance" to borrow, in order to pay one's way, £3,500,000 at a time when the revenue was in such a state of prosperity as had not been known for a long time; and the Right Hon. gentleman who impeached his colleagues as the robbers of the Queen's Exchequer was himself one of that "long firm," and himself largely responsible for the enormous increase in the naval and military expenditure of the country which was the real ground and foundation of the financial situation.

The height of the unfunded debt and the lower price of Consols were equally the subject of banter and criticism, and Sir William repudiated the suggestion made by Mr. Goschen that the House had entered into partnership with him in regard to the caution with which the estimates ought to be framed. He reminded him that he had in 1887 founded his claim to cut down the sinking fund upon experience which shewed that there was no elasticity in the revenue. "From the moment he began reducing the sinking fund the revenue rose." And he concluded, in the *rôle* of financial purist, by rebuking the Chancellor of the Exchequer for the extraordinary innovations he had introduced into the financial business of the country, and for the utter revolution "he had made in all these safeguards which had been con-

sidered most essential" to secure the solidity of the finances.

Mr. Henry Fowler followed in a less exuberant but equally critical vein, and added that practically we had to raise a revenue next year of something like 100 millions. Mr. Goschen replied with some sarcastic observations on Sir William Harcourt's authority in these matters, speaking of him as one who had been a Chancellor of the Exchequer, though not "for many months," and who had distinguished himself by proposing to suspend two little sinking funds to meet a deficit. But his defence did not carry matters further than a repetition of the considerations with which the reader is familiar. The Customs and Inland Revenue Bill passed without much more discussion; the attacks described above made little impression on the country; and public attention was mostly occupied with the Government proposals for free education, to which the year's budget was subservient.

MR. GOSCHEN'S SIXTH (AND LAST) BUDGET, 1892-3.

April 11, 1892.

Mr. Goschen had to announce a surplus of £1,067,000, not due to any great expansion of revenue; and he stated that he had for some months felt very considerable anxiety about the final result. The chief feature in the revenue receipts had been the tobacco duty, which produced £9,952,000, or £222,000 more than the estimate, and £418,000 more than the year before. Including £600,000 due to the reduction of

the duty in 1887-8, it now yielded £1,200,000 more than at that time. He approached "with awe" the subject of the taxes upon alcohol, now about one-third of the total revenue (30 millions out of 90 millions). The total for this year was £30,871,000, an increase of £900,000 (or 3 per cent.) on the year before, and of £314,000 (or 1 per cent.) on the budget estimate. Mr. Goschen gave an interesting contrast between the consumption of certain staple articles in 1841 and 1891. In 1841 each individual consumed on an average 13 oz. of tobacco per year; in 1891, 26 oz. In 1840 each consumed 17½ oz. of coffee and 19½ oz. of tea; in 1891, 12 oz. of coffee and 87 oz. of tea. This meant that the masses of the people were now able to enjoy these non-alcoholic beverages to the extent of three times more than they were able to do fifty years before; and as regards spirits, 7½ pints per head were consumed as against 8 pints in 1891. These facts, taken together, were "most encouraging," even if they weakened Mr. Goschen's earlier contention as to the inelasticity of the Customs revenue.

For the coming year he put the expenditure at £90,253,000, or, taking into account the cash receipts, £925,000 (which were this year to be appropriated in aid of votes, but last year had been paid into the Exchequer, and had therefore swollen the expenditure), £91,178,000, which was £914,000 more than that estimated for last year. He proceeded to explain the increase in detail, and summed up as follows:

"The increase is not in the Army and Navy estimates nor the Civil Service estimates generally, . . . it is in the direction of education and of the

postal service of the country, which between them accounted for an increase of £2,000,000 in the expenditure."

As to revenue, he regarded the indications of a continuance of prosperity as doubtful, and he estimated for a slight increase of £164,000 (over the Exchequer receipts for last year) from Customs, and a decrease of £915,000 from Inland Revenue (on the net receipts of last year), income-tax being put £443,000 lower. The total was given as £90,477,000, a margin of £224,000 over the expenditure. No remission of taxation was therefore possible, and only small changes not appreciably affecting revenue were proposed.

This speech was marked by several interesting digressions into the field of statistics.

Once again in his estimate of the coming revenue he analysed the tests of the national wealth, such as the clearing house returns which were unsatisfactory and the railway returns which were still good. He balanced the effect of the normal increase of population (1 per cent.) against the loss of days caused by the date of Easter, but it was in his treatment of articles of consumption and of the income-tax that he brought new facts to bear. "We had had a great time of prosperity in 1874 and 1890, and we must study the events which followed 1874 and see in what articles we must expect a fall if we are really entering upon a descending curve after 1891."

From the diagrams which he had had prepared he considered it to be "absolutely proved that the working man, if his wages should diminish, first reduces the amount of his beer and spirits, he clings longer to

his tobacco, and, as regards tea for himself and his family, he does not reduce it at all." He applied this test to the various items for which he had to estimate. The income-tax assessments were examined in a similarly exhaustive spirit. Mr. Goschen not only described the effect of the average system and how, in estimating what the profit assessed under Schedule D might amount to in the coming year, it was necessary to note whether the year which dropped out of the three (or five) year's average, as well as the new year which took its place, was prosperous or the reverse, but he endeavoured to find out which were the industries, trades or professions which "kept up that steady flow of profit on which so largely the material prosperity of the country depended." In this enquiry he made use of, and quoted from, certain figures, prepared at that time in the Inland Revenue department classifying the profits of various trades and professions assessed under Schedule D of the income-tax; figures of much interest not only as bearing on the great industries of the country, cotton, coal, iron and other productive industries, but also as giving an idea of the amount of the "retail trade, which permeates every village of the country, the great home trade which does not always strike our attention so much as the more important and visible trades." He told the committee, for instance, that the total profit of the cotton lords and cotton companies was less than the aggregate profit made by the medical profession"; that the "total profit from coal mines was less than the profits of the legal profession," that the total of the profits of all the great manufacturing and productive industries only

amounted to one-half of the profits which fell under the head of distribution and transport; that the salaries assessed under Schedule E and D formed an "immense total, far beyond what the public would imagine," and shewed a constant tendency to increase. Taking a general view, he came to the conclusion that there was scarcely any serious decrease in the assessment of profits. Nevertheless, when profits are bad, as they might become in the course of the year, there was not in the heart of the taxpayer "such absolute impartiality in the settlement of accounts between the Exchequer and himself as there might be under more normal circumstances; and the fact that the last day of the financial year was Good Friday might mean more arrears carried over in the following year. So he put the receipt of income-tax down by £443,000, and this time his caution proved to be justified by the event.

A dissolution of Parliament was imminent, and the budget passed through all its stages with little or no noteworthy comment, except an endeavour on the part of Mr. Bartley to induce the Chancellor of the Exchequer to "differentiate" the income-tax very much on the lines adopted in 1907.

In spite of the absence of changes in taxation, this speech, full as it is of careful and significant deductions from statistical experience, must be given a very high place in the series of Mr. Goschen's budget speeches; and his account of the basis on which he estimated his revenue is particularly noticeable in this respect. Mr. Gladstone, in praising his interesting statement, observed: "I do not think that I have ever known that particular department of the statement of the

Finance Minister so much expanded as it has been on this occasion by the Right Honourable gentleman."

Before many weeks had passed a General Election had overturned a Government which, in spite of an unpromising start, had run a course of almost unbroken success. It had been fortunate in complete immunity from wars or foreign complications; the domestic administration of the country had been firm, vigilant and careful; and the spirit of compromise engendered by the necessary dependence of the Conservatives in Parliament upon influential outside Liberal support, had been favourable to moderate progressive legislation. With a financial expert of Mr. Goschen's eminence at the Treasury during a period of profound peace and reviving prosperity, there had been an opportunity of realizing the ideal which Lord Randolph Churchill set before himself, of raising the financial reputation of the Conservative party from the "very low point at which it had stood since the time of Sir Robert Peel"; and the foregoing summaries of his budgets will have enabled readers to form some opinion how far such an anticipation had been justified. One great achievement will always stand to Lord Goschen's credit, the conversion of the National Debt, a gigantic operation the success of which was due to his judgment and boldness in seizing a favourable moment, his knowledge of the City and the money market and of the men who control them, his own financial and diplomatic skill. There were other occasions on which these qualifications served him well; but as regards his dealings with taxation proper and the actual construction of his successive

budgets his performance was held by contemporary critics to have fallen somewhat short of the great expectations which his reputation encouraged. Fearless when once a course had been decided upon, he was difficult to move in the preliminary stages of a question; and the clearness with which he perceived the arguments on both sides often, in his case, hampered and delayed administrative action. His speeches abound in expositions of intricate and technical financial details, which Mr. Gladstone in his best days alone rivalled, and they are studded with interesting discussions (such as those referred to on pages 3, 47, and 55-6), which shewed him to be a practical economist of a high order and a master of statistical method. But, although he shewed in his first budget speech how fully he recognized the necessity of a reorganization of the principal taxes, death duties, income-tax, stamp duties and the rest, and of an analysis of the incidence of taxation upon different classes, he did not succeed in handling any of these problems in more than a tentative, partial and piecemeal fashion. He never, for instance, ceased to deplore the pressure of the income-tax upon the poorer income-tax payers, and upon earned and professional incomes. But his only remedy was to reduce the tax upon rich and poor alike. His treatment of the relation between direct and indirect taxation was somewhat of a departure from the fiscal tradition in which he had been brought up. He shewed little sympathy towards the growing demand for the reduction of the indirect imposts which affect the poorer classes. He was the first of modern Chancellors of the Exchequer to raise the cry that the basis of our taxation was dangerously narrow, and he

continually harped on the inelasticity of the main props of our revenue, which subsequent financial history so far has hardly demonstrated, whatever may be the case in the future. He failed to foresee the immense development of which the direct taxes were susceptible, or the ease with which a great increase of revenue might be obtained from the existing indirect taxes (as was proved during the South African War), and his forecasts in these respects were falsified even during his own period of office. He excelled in ingenuity in meeting demands for revenue from many quarters at once, and in his efforts to discover fresh sources of taxation without having recourse, as he constantly maintained, to taxation levied, on the one hand, upon articles of universal consumption, nor, on the other, upon the earnings of the business or professional man. But important and laudable as these objects were, the most salient result of his operations was to complicate his financial statements almost to distraction by a multitude of small changes. With greater confidence in the real strength of the fiscal situation, he might have avoided some of the further charges which his Liberal critics fastened upon him, namely, those in connexion with his dealings with the sinking fund and with the Exchequer balances and his arrangements as regards loans for Imperial and Naval Defence Acts and the like.[1] The arguments for and against his successive reduction of the fixed charge for the debt from 28 millions to 25 millions may have been nicely balanced ; but he cannot escape the responsibility of having

[1] See especially *Mr. Goschen's Finance* 1887-1890, by Sir T. H. Farrer for strong adverse criticism on these points.

broken down a valuable safeguard of national finance, and established a precedent which future Chancellors of the Exchequer, Sir Michael Hicks-Beach and Mr. Lloyd George, were to follow in due course. It is true that, owing to the accident of large surpluses, attributed by his opponents to deliberate under-estimation of the revenue and no doubt partly the result of the excessive caution which was one of his characteristics, he was able to replace the diminished new sinking fund by drawing on the old sinking fund, and to reduce the debt by an amount which compared very favourably with what had been possible in previous periods. But dependence on this source is not a substitute for an increasing fixed charge for redemption. Taking into account, however, the saving effected by conversion and the further large redemption of debt during the succeeding ten years, coupled with the great rise in Consols, it would be rash to assert that as a matter of practical politics Mr. Goschen was not justified in the view he took (and no one was more capable of forming a sound opinion on such a point) that £5,000,000 per annum, besides the old sinking fund, would be an ample and sufficient provision for the reduction of debt. Finally, as regards local taxation, the general criticism of Mr. Goschen's arrangements has already been indicated; and it is admitted that in certain important respects they did not conform to the principles laid down by him as a member of Mr. Gladstone's administration in 1870, and that they have not pointed the way to any satisfactory solution of the issues between Imperial and local taxation. It may be observed, however, that for later undesirable

developments, and for the neglect to improve upon Mr. Goschen's initial scheme, his successors are responsible; and that if, with all the consideration which has since been given to these questions no clean-cut solution has yet been found, Mr. Goschen can hardly be reproached for not having devised one in which he could carry his party at the outset of popular local government in 1888.

In the long-drawn duel between Mr. Goschen and Sir William Harcourt, between the financier and the parliamentarian, the advantage was certainly not always on the side of the former. But there was some exaggeration in the indictment outlined in the preceding pages, for the able opposition with which the Chancellor of the Exchequer was throughout faced, at a time when financial criticism was a reality in the House of Commons, was naturally coloured by the personal and political resentment which was one of the legacies of the Home Rule struggle. He was often taunted with being a renegade to the principles which he was supposed to have professed in his Liberal days; but it may be doubted whether there was as much inconsistency in his attitude as was sometimes assumed. There is little reason to suppose that he was ever in sympathy with the tendencies which have since become labelled as democratic finance. It was one thing to perceive and signalize defects in the fiscal system, and quite another, for a man of his cautious and analytical temperament, to undertake drastic reforms the ultimate results of which he probably foresaw and feared. The charges brought against him in regard to the sinking fund, the Exchequer balances, and the loans for Imperial

and naval purposes, shewed an earnest desire to control suspected waste and extravagance, but the facts do not appear to substantiate the accusation that, had it not been for fresh borrowing, he would have had deficits instead of a series of magnificent surpluses. Clearness and intelligibility is of the first importance in the public accounts, and in so far as his arrangements tended to introduce confusion they are certainly not to be commended. Mr. Goschen's very mastery of business and of financial detail no doubt predisposed him to methods which were not always in accordance with Treasury precedents, and were apt to bewilder both friends and foes; but part of the trouble arose from his over-conscientious attempts to explain to a popular assembly details which many finance ministers have been content to leave in judicious obscurity. Examination of the facts does not bear out the impression that the net result of Mr. Goschen's much criticized operations was other than satisfactory.[1]

The policy of the Naval Defence Act, 1889, however,

[1] During Mr. Goschen's period of office the National Debt, *i.e.* the gross liabilities of the State, were reduced by £59,084,005 (see National Debt Return, Cd. 5682, 1911) as follows:

	Funded Debt.	Capital liability in respect of Terminable Annuities.	Unfunded Debt.	Other Capital Liabilities.	Total.
On March 31st, 1887.	£637,637,640	£80,394,390	£17,517,900	£603,137	£736,153,067
On March 31st, 1892.	577,944,665	62,550,043	35,312,994	1,261,360	677,069,062
			Total reduction,		£59,084,005

The following table shews how the old sinking fund (realized surpluses) was applied during the years in question. (The

raised some points of financial interest to which allusion may here be made. Incidentally the discussion elicited the usual protests against any increase of expenditure on naval or military objects, protests as honest as they are futile when the responsible leaders on both sides are agreed upon its necessity, and public opinion as a whole supports them. Lord George Hamilton's naval programme involved the building of seventy vessels within four and a half years

Treasury Bills paid out of the old sinking fund were not new and additional Bills but Bills issued in earlier years, *e.g.* for redemption purposes and Imperial defence.)

OLD SINKING FUND.

Of the Year.	Total Amount of the Old Sinking Fund.	Applied to reduce Ordinary Debt.		Applied to other purposes.	
		Amount.	Debt.	Amount.	Purpose.
	£	£			
1886-7	776,006	776,006	In 1887-8, Friendly Societies Deficiency (Capital Liability).		
1887-8	2,378,609	2,378,609	In 1888-9, Friendly Societies Deficiency (Capital Liability) - £463,821 Suez Canal Exchequer Bonds - £1,914,788		
1888-9	788,982	788,982	In 1889-90 Funded Debt.		
				£	
1889-90	3,221,002	2,221,002	In 1890-1 Treasury Bills.	1,000,000	To pay off Deficiency Advances.
1890-1	1,756,257	1,756,257	In 1891-2, Treasury Bills - - £1,756,000 Funded Debt £257		
1891-2	1,067,013	1,067,013	In 1892-3, Treasury Bills - - £1,064,497 Funded Debt £2,516		
1892-3	20,011	—	——	20,011	To pay off Deficiency Advances.

from the laying down of the first of their number at a total cost of 21½ millions, part of this cost to be spread over a period of seven years. Thirty-eight of these vessels were to be built in the dockyards (£8,650,000 for hulls and £2,850,000 for armament), to be provided under the ordinary estimates at an *increased* annual cost for five years of about £600,000. The rest of the vessels were to be built by contract at a cost of 10 millions, to be defrayed from a naval defence account, payable in seven annual instalments of £1,428,000 each. The object of this provision was to regularize the expenditure on contract work which it was a matter of difficulty and almost impossibility to estimate from year to year, and to avoid fluctuating demands upon the Chancellor of the Exchequer, and consequently upon the taxpayer. Thus the total increase in cost above the ordinary shipbuilding and ordnance votes was to be two million for five years and £1,428,000 for two or more years. The Admiralty was relieved from the necessity of surrendering unexpended balances, a necessity which hampered administration, was uneconomical in practice, and involved calling upon the taxpayer in the succeeding year for the same object for which the money had already been voted once. A further novelty was that this expenditure was to be put into an Act of Parliament, not in order to deprive the House of control (for it could always refuse to vote the money on the annual estimates), but to bind the executive Government to carry out the scheme in its entirety by compelling Ministers to come to Parliament with a public statement, if they desired to depart from the programme.

Much objection was taken by the opposition to these proposals on constitutional grounds. They were condemned as committing the House of Commons to expenditure in future years and as giving the House of Lords a voice in a matter of finance, and Mr. Fowler protested against any portion of the expenditure being placed on the consolidated fund and "taken out of the control of the House by annual votes." Even he, however, scarcely attempted to defend the practice of surrendering unexpended Admiralty balances to the Exchequer, which so strict a financier as the late Lord Northbrook once characterized the "pedantry of finance." The extension of the payment of 10 millions over two years beyond the date of the estimated completion of the work no doubt gave an excuse to Sir William Harcourt for condemning the scheme as a resort to borrowing for non-permanent works—an objection which he admitted did not apply to the Imperial Defence Act or the Barracks Act; and Mr. Goschen, in 1895, said that this had been done in the belief that the Naval Defence programme had been an exceptional effort, and that additional proposals (such as that known as the Spencer programme) would not be needed. There can be little doubt that the advantages of the plan originated by Lord George Hamilton far outweighed all these technical objections. To begin with, it ensured the necessary financial provision at a time when trade and revenue conditions were not too favourable; it was a thoroughly well thought-out scheme, complete in all its details; it obviated the administrative scandal with which Lord George Hamilton had more than once had to deal,

of ships being built without guns and guns being put on board ships without ammunition, and ensured the provision of a fleet of vessels of all classes in their proper proportions, with their armament, within a definite limit of time;[1] and, although the necessity of adhering to a minutely devised scheme had inevitable disadvantages, yet, as a business-like and economical method of making the required addition to the naval strength of the country, it compares most favourably with much which was to happen subsequently in the way of naval expenditure.

In attempting to form an opinion upon Mr. Goschen's record at the Treasury, it must be remembered that he had throughout a very difficult political game to play. He was the first Chancellor of the Exchequer who had to deal with an enlarged electorate, and the organization against any proposed tax became much stronger after the 1884 Reform Act than it had been before. Upon his success, again, in working with Conservative colleagues depended the success of the Unionist opposition to Home Rule, an object to him of supreme importance; and, in the unavoidable collisions which arose between finance and politics, finance in his hands suffered less than might have been expected. Careful, conscientious, even parsimonious, as an administrator, he may be held to have accomplished a considerable work in providing for the growing needs of his day, for free education, for a reformed system of local government, and for a largely increased expenditure upon the defensive forces of the country, and especially the Navy, without throwing an appreciably heavier bur-

[1] The estimated cost was only exceeded by £600,000.

den upon the taxpayer.[1] In much later days, when these controversies were forgotten and others had arisen which had, before his death in 1906, brought Lord Goschen again into some degree of sympathy with his former opponents, Mr. Asquith, as Chancellor of the Exchequer, pronounced a judgment upon his career which will not now be disputed. "He was a great financier, a great administrator, a man who brought a rare combination of clear insight, cultured intelligence, subtle reasoning power, wide expert knowledge and inflexible courage to the service of the State" (Budget Speech, April 18th, 1907).

[1] The expenditure (including local taxation grants), which at the close of the first year stood just under £87,500,000, and for the last two years just over £97,500,000, rose by ten millions during Mr. Goschen's Chancellorship of the Exchequer.

SIR W. HARCOURT'S BUDGETS.

FIRST BUDGET, 1893-4.[1]

April 24, 1893.

THE "miserable mouse of a surplus" which Sir William Harcourt had to announce should have satisfied so stern a censor of the recent surpluses. That it had come out at £20,000 instead of £200,000 as estimated, was due to a great increase in the education vote, and to supplementary estimates (an "abyss which no plummet can sound") for this and for the past year (£199,000), an excess only revealed at the last moment. There had been borrowed for the expenditure of the year, under various Acts, £2,016,000, which Sir William Harcourt added to the total of £90,375,000 making the real expenditure of the year, as he said, £92,431,000. Mr. Goschen's reply to this line of argument, which would have turned some of his surpluses into deficits, was final and conclusive. He twitted the Chancellor with being compelled to "shy" at the word surplus. The subjects on account of which borrowing had taken place had over and over again been treated as capital expenditure, and it was an extraordinary doctrine that borrowing for capital expenditure should involve

[1] The first of this series. His first budget belongs to the year 1886, when he was Chancellor of the Exchequer for the first time.

the question of a surplus or deficit. If the Chancellor of the Exchequer considered it wrong to borrow, it was open to him, under the new Acts of which he complained, to pay the amount out of revenue.

The revenue had been £58,000 less than the estimate. The decline which Mr. Goschen had so continually anticipated in vain, but for which he had with admirable prescience estimated last year, was in full course; and the closeness of the estimate, based on the statistics quoted in the last chapter, was described by Sir William Harcourt as a "marvellous approximation in so vast a sum." There had, of course, been variations from the estimates on details, but the "exactitude of averages" had come to the rescue. Spirits had fallen more than £400,000, instead of £200,000 (excise); there had this time been a "stampede from alcohol." The effects of the "influenza year" (1892) had been underestimated as regarded "probate duty," and overestimated as regarded "legacy and succession duty." The loss in the one case had been double what was expected, and the gain in the other three times that which was anticipated. The loss on the income-tax had been rather less than had been estimated. The yield per penny in the several schedules of the income-tax which were analysed, shewed, with the produce of the probate duty, a "solid advance in wealth, both in annual income and the accumulated capital of the nation"; and was a "conclusive answer to these pessimists who assure us that we are being ruined by a vicious commercial system and a false monetary standard." But, though the revenue of 1892-3

approximated so closely to the budget estimate, it was greatly below the revenue of 1891-2.

After a statement on the debt, from which it appeared that the net liability of the State had been reduced by 7 millions and that the unfunded debt (held by the public) had been reduced by £2,468,000, Sir William Harcourt proceeded to the estimated expenditure of the year which was £91,464,000 (owing to the Education and Post office votes being £1,089,000 higher than last year), a "gigantic total," which did not represent by any means the whole amount, since an additional sum of £7,250,000 was raised by Imperial taxation for local purposes. The "total sum to be raised was, therefore, £98,750,000," which is "dangerously near the £100,000,000, which a few years ago we thought only belonged to time of war and to extraordinary circumstances."

The revenue had to be estimated with caution, as the heaviest fall had been in the last quarter. Taxes, as distinguished from non-tax revenue, were calculated to produce £590,000 less than the last year's result, and the deficit to be provided for was £1,574,000.

There was an interesting comparison of the expenditure in 1887-8 and 1893-4, the seven years covered by Mr. Goschen's Chancellorship of the Exchequer.

Naval and military services cost in the latter year -	£2,600,000	more.
Public education - - -	£3,400,000	,,
Local grants - - -	£4,200,000	,,
Other civil charges - - -	£400,000	,,

So that the normal expenditure had increased by

£10,600,000, or 20 per cent. under these heads. On the other hand, the debt charge had been reduced by £3,000,000, partly the result of conversion; and the additional sum raised by taxation was, therefore, about £7,000,000, and there had been borrowing to a similar amount in the seven years.

Sir William Harcourt treated the House to one of those lectures on economy which were in future to become a feature of budget speeches, as familiar as they were fruitless. But he diminished its effect on this occasion by dwelling on the figures of the income-tax, death duties, post office and trustees savings bank deposits, building and industrial and provident societies, and life insurance companies, "which bore testimony to the growth of the accumulated wealth of almost every class of society."

He then proceeded to discuss alternative methods of meeting the deficit, and announced, a little sententiously, that in the opinion of the Government there was only one sound and straightforward method of doing so, and that was by increased taxation. He quoted some observations by his predecessor in 1889 in support of the view that death duties formed one of the most fitting sources of such taxation, and foreshadowed a reconstruction of these duties for the next year. He proposed for the present to raise the necessary revenue by putting 1d. on the income-tax, and in defending his action he referred to the defeat of Mr. Childers' budget of 1885 on the spirit and beer duties, and to Sir M. Hicks-Beach's increase of the income-tax on his succession to the post of Chancellor of Exchequer as "having rung the knell of indirect taxation in the future."

This was naturally one of the most important points on which Mr. Goschen fixed in a spirited attack on the budget proposals a few days later. "The Right Honourable gentleman," he said, "borrows the latest automatic invention; he puts a penny in the slot and the thing is done. It is so very simple, but possibly it is also unjust." He alluded to his own achievements in the "unpopular and difficult task" of endeavouring to broaden our financial system by the introduction of certain new taxes; and enlarged, as he had often done, upon the difficult position of the class with about £400 a year, the struggling class of bank clerks, small tradesmen and embarrassed farmers, and on the proper use of the income-tax as a reserve for use in a sudden and great emergency. Sir William Harcourt in his reply stated his opinion that the tendency of Mr. Goschen's finance had been to relieve direct taxation at the expense of indirect, a consideration of great importance in dealing with taxation, as it falls on different classes of the community. In 1886-7 the proportion had been 54·4 per cent. indirect, as against 45·5 direct; in 1890-1 the figures were 55·9 indirect, as against 44 per cent. direct taxation. Mr. Goschen challenged these figures, stating that his movements were all the other way as he had reduced the tea duties and increased the succession duty and created the estate duty. But he declined to consider his reduction of 2d. in the income-tax as affecting the calculation, and held that as it had been an addition for war purposes in 1885 it was not a permanent source of taxation, nor to be regarded as such in the comparison. The anxiety of both statesmen to avoid the imposition of

indirect taxation, or the imputation of it, is noticeable. Although the whole tendency of Peelite and Gladstonian finance had been to reduce the heavy balance of taxation against the poorer classes by relieving them of the toll which protective duties unavoidably levy upon them in the shape of higher prices in commodities of large consumption, it cannot be said that there had been any very distinct conception of the part which direct taxation might play in placing the burden on the shoulders most able to bear it. The reader will not need to be reminded of Mr. Gladstone's attitude during his greatest days as Finance Minister towards the income-tax, nor of his vision of direct and indirect taxation in the budget speech of 1861 as "two attractive sisters," each with an ample fortune, to both of whom he, as Chancellor of the Exchequer, had always thought it not only allowable, but even an act of duty to pay his addresses. "I am, therefore," he said, "as between direct and indirect taxation, perfectly impartial."

It had become a traditional rule to aim at an equal numerical proportion between the two branches of taxation, and to balance relief in one direction by similar relief in another, a rough and ready proceeding certainly based on no serious study of the problems of incidence. But, though such studies have always been dismissed as too obscure to be of practical use in the preparation of budgets, economists were soon to devote more attention to the subject; and Parliamentary discussions from the days of Mr. Goschen's Chancellorship of the Exchequer shewed a growing consciousness of their importance. Liberal finance, at all events, thenceforward tended consistently

towards the employment of direct taxation as a means of increasing the contribution of the richer classes to the revenue, and from this point of view Sir William Harcourt's next budget was to create a real epoch in British fiscal methods. As regards the income-tax, progress in this direction was barred by the absence either of sufficient graduation, or of differentiation according to the source of the income, so that the poorer income-tax payers suffered proportionately with the rich by any increase in the rate. Mr. Bartley was long a pioneer from the Conservative benches on this question, and seized the opportunity to press it on the attention of the Government in this debate in two admirable speeches, in which he raised both the general question of the incidence of existing taxation on the different classes, and the question of differentiating the income-tax according to the source of the income. He drew an answer from the Chancellor of the Exchequer agreeing that the "richer people paid less in proportion than the poorer people towards taxation, a very important proposition. . . . There is no doubt whatever that the larger percentage of the revenue of this country is raised by indirect taxation, and the great burden of indirect taxation must necessarily fall on the poorer and humbler classes of the community."

On the technical question of differentiation Sir William Harcourt took the perfectly sound line that differentiation was best effected by the taxation of the realized capital from which so-called unearned income is derived, and he quoted an estimate by the late Mr. W. H. Smith in 1891 that past or accumulated wealth, contributed, in death duties and stamps

on deeds and bonds, a sum equal to an additional income-tax of 1s. in the £ on the annual income derived from such property.

The only other noteworthy point in the discussion was a weighty speech by Mr. Leonard Courtney (now Lord Courtney), who thought the Chancellor of the Exchequer too optimistic in his view of the financial situation of the country; insisted on the necessity of strict economy, advocated keeping up a due proportion of indirect taxation unless some system of direct taxation affecting the less wealthy taxpayers could be devised; and deprecated a great enlargement of the revenue from death duties, as compared with the income-tax, on the ground that they were taken out of the capital of the country for current expenditure, and that the survivor who suffered from the abstraction of this capital did not, as a rule, sufficiently appreciate the fact or feel under any obligation to make it up out of his income by diminishing his expenditure.

Attention has been drawn to the points raised in this discussion because they will henceforward be found to recur with increasing frequency, and because they indicate the lines along which fiscal controversy was to develop for many years to come. As is so often the case, the views which inspired the efforts of reformers were to triumph at length with a completeness which invests Lord Courtney's warnings with a new significance.

SIR WILLIAM HARCOURT'S SECOND BUDGET, 1894-5.

16 *April*, 1894.

It was not the fate of Mr. Gladstone, who, at the age of 84, had but just retired from the post of Prime Minister and been succeeded by Lord Rosebery, to have any official connection with a budget which, in its social and fiscal results, was as significant as those for which he himself had been responsible half a century before. Sir William Harcourt opened the budget which was to give him lasting fame as Chancellor of the Exchequer with the usual review of the past year's finances, the result of which (after another year of remarkably close estimates), was a deficit of £169,000. Although 1893 had been an unfortunate year, with financial difficulties in America and in Australia (which had had their effect on the stamp revenue), labour disputes at home, and a general depression of agriculture aggravated by drought, there had, as regarded the main articles of consumption, been no evidence of diminished resources; the net receipt of Customs (in spite of a decrease on wines) having been £93,000 over the 1892-3 total, and the revenue from beer having exceeded any former year by £80,000. The revenue had come within ½ per cent. of the estimate, "a marvellous accomplishment" in such a year. For the coming year the amount to be provided was £95,458,000, or £3,994,000 more than the previous year. Of this, £3,126,000 was for naval expenditure, under Lord Spencer's programme of the previous year. Adding £7,250,000 for local expenditure, the total expenditure was brought over the

100 million £, namely to £102,700,000. It was pointed out that there had been an increase of expenditure in twenty years (since 1875-6) of £23,823,000, the main heads of increase being:

On Navy and Army - -	£12,000,000
Education - - - -	£6,200,000
Local expenditure - - -	£6,500,000

with only one head of reduction, that being for the liquidation of the National Debt, £1,739,000, "not a very satisfactory item of economy."

On the Imperial Budget the deficit to be provided for was £4,502,000, after a cautious estimate of the revenue at £90,956,000 on the basis of the previous year. How should this be met? Not, as the Chancellor of the Exchequer emphatically stated, by borrowing, nor by any tampering with the fixed charge for the reduction of the debt, which he regarded as a great reserve or "war chest" for a time of emergency.

But he proposed to make an alteration in the arrangements of the Imperial Defence Act and the Naval Defence Act (1888 and 1889), by which a charge had been thrown on succeeding years in the belief, as Mr. Goschen admitted, that this Naval Defence programme had been an exceptional effort, and that the additional proposals now made would not be needed. In order to clear the new debts out of the way and relieve the revenue of these extraordinary burdens, he proposed to reduce them to the amount of £2,300,000 (out of £5,746,000 outstanding), by appropriating the new sinking fund for the past, and both sinking funds for the current, year

to their discharge, leaving the balance to be cleared off by the new sinking fund for 1895-6. This proceeding amounted to a temporary suspension of one of the provisions for paying off the old debt, and gave rise to some taunts in view of Sir William's rather grandiloquent talk on the subject. Incidentally it set free for future years the £600,000 per annum interest on the Suez Canal shares which had been mortgaged for four years to repay these debts, and for the current year £260,000 was added from this source to the revenue, while the Navy and Army votes were saved the charge of £145,000 for interest on the loans. Thus, with the saving of the now abandoned Naval Defence Annuity (£1,429,000) and the repayment of £289,000 excess money to the Naval Defence Account, the deficit to be met was reduced to £2,379,000.

To provide for this Sir William Harcourt looked to the "great staple branches of the revenue," refusing to "peddle" with small taxes "which irritate and embarrass small trades without producing any considerable revenue"; and he naturally turned first to that reform of the death duties which had more than once been foreshadowed by his predecessor. This reform, therefore, stands out as the chief feature of the budget, which gave so great an impulse to the hitherto latent tendencies of Liberal finance as to justify Mr. Leonard Courtney's description of it as "historical" and comparable in this respect with those of 1841, 1853 and 1860. Not only did the major part of the introductory speech of the Chancellor of the Exchequer deal with the question of the death duties, but the lengthy discussions which took

place in the House during the passage of these proposals were mainly concerned with this one topic. It will be impossible to do more than give a bare outline of the main principles of the measure, and indicate the nature of the hopes and fears which it aroused in its champions and opponents.

The two great distinguishing features of the scheme were, first, the attempt made to bring realty into line with personalty in regard to its liability to death duty, and, secondly, the establishment of a scale of graduation in the rate of duty payable, having regard to the value of the whole aggregated property passing on the death of a deceased person.

These, indeed, were both considerations which, to some extent, had been in the mind of Mr. Goschen. It will be remembered that, stimulated perhaps by his knowledge of Lord Randolph Churchill's intentions, he had, in the year 1887, dwelt upon the necessity of re-modelling the death duties; and that he had proceeded, in the year 1888, to make a small attempt to equalise the burden of the duty as between personalty and realty by adding to the rates payable in respect of the latter kind of property, and by allocating a portion of the yield from the former to local taxation purposes. In the following year he had made a tentative move in the direction of graduation by the imposition of the estate duty, a super tax of 1 per cent. to be levied for a limited period on property of over a given amount. There was, therefore, some point, as well as much genial malice, in the passage in which Sir William Harcourt described himself as a "faithful disciple" of his eminent predecessor.

But the piecemeal legislation to which the death

duties had for many years been subject had left them in a chaotic condition, and as a preliminary to any satisfactory new system a general clearing of the way was necessary. There then existed no less than five different duties: the probate duty, the account duty, the estate duty, the legacy duty and the succession duty; the probate, account and legacy duties affecting personalty, and the estate and succession duties affecting both personalty and realty. Looking at the point of view from which the duties were levied, the Chancellor of the Exchequer divided them into two classes, A and B. In class A, which included the probate duty, the account duty and the estate duty, the principle adopted was to tax with sole regard to the value of the property passing, without any reference to its subsequent destination or distribution. In class B, which included the legacy duty and the succession duty, the scheme of taxation was to look at the interest taken by the particular beneficiary, and then to tax him at a rate determined by his relationship to the person from whom the interest was derived.

It is only since the publication of Mr. Winston Churchill's life of his father, in 1906, that some details of Lord Randolph Churchill's proposals for the reform of the death duties, in the budget of which he was at work in the autumn of 1886, have become known. It is impossible to deny that these proposals, which both as regards the A and B duties run counter to those carried by Sir William Harcourt, were simpler and more sweeping in character. He would, indeed, have graduated the tax no less boldly than his successor, but he rejected the plan of regulating the

graduation by the total mass of property passing on any one death, and he rejected equally, and with greater reason, the regulation of graduation by kinship retained by Sir William Harcourt in the legacy and succession duties. One single tax, graduated on the amount of the total benefits received by the individual on succession and in no way dependent as consanguinity, was to have replaced in course of time the whole of the five existing death duties. Just as Lord Randolph Churchill considered and rejected the scheme subsequently adopted by Sir William Harcourt because "his instinct told him it was wrong," so doubtless did the latter weigh and decide against the plan of his predecessor, perhaps for more practical reasons. Probably it was found that the plan of graduation on the total wealth of the testator would be considerably more beneficial to the Exchequer, and that it would be impossible to make the rival plan fiscally water-tight. Sir Richard Webster (now Lord Alverstone) moved an amendment in committee raising the whole question. "Under the Bill," he said, "however small a benefit was taken by the beneficiary he would have to pay a penalty in the form of an increased duty, if the amount passing to him happened to form part of a large estate. . . . The opposition were justified in bringing out clearly that the Bill did impose upon the recipient of the benefit a tax not at all in accordance with his ability, simply because his portion happened to come from a larger pool." As he read the Bill, it did not follow the analogy of the probate duty so much as that of the succession duty, in that everything above 3 per cent. (*i.e.* the new graduation

and excess tax) was to be paid by the legatee in the case of existing wills (§ 7 (3)), while in the case of deaths after the commencement of the Act the whole duty was fastened on the legatees (§ 12).

The point was answered by Sir William Harcourt and Mr. Fletcher Moulton (now Lord Moulton). Their contention was that the duty was a "debt to the State" (a contention supported in the course of the discussion by reference to the dicta of various economists); that the State was entitled to its share before any of the successors or beneficiaries; that the duty was paid to the State by the deceased's personal representatives, the revenue knowing nothing of what was done with the residue which was distributed according to the will of the testator. Mr. Moulton stated that by the Bill the choice of throwing the whole weight on the residuary legatee (as in the probate duty) or providing that each legatee should bear his share was left to the testator. If he did nothing the State would presume that he meant the tax to be distributed evenly over the whole estate, but if he provided for the payment of the toll to the State it would be paid in the way he directed. It was admitted that Section 12 was introduced because it was thought it might be advisable to distribute the burden thrown on the residuary legatee among all the beneficiaries, but the change was not material from the revenue point of view; and the Government accepted an amendment by Sir R. Webster on that clause, which helped to bring the matter into conformity with the above declarations of intention. In the result, Section 7 of the Bill ultimately appeared on the Statute Book in a

modified form as Section 8 of the Finance Act, 1894, and that portion of Section 12 to which Sir Richard Webster had objected was omitted altogether.

On the whole, there appeared to be little substance in the objection of principle taken by the opposition which had been strongly felt by Lord Randolph Churchill.

Having given a variety of examples to illustrate the extraordinary differences in the actual amounts of duty payable according to whether the property chargeable happened to be realty or personalty, the Chancellor of the Exchequer laid it down as being the chief proposal of the Government to make as complete an assimilation as possible of the charges on all kinds of property in respect of the death duties.

With this object in view, he at once proceeded to abolish the probate duty, the account duty, and the then existing estate duty; and to constitute in their place a single duty of the A class, to be called the Estate Duty and to be charged according to the aggregate principal value of all property, whether real or personal, settled or unsettled, which should pass on the death of any person, whether by the disposition of the deceased or by a settlement made by others. The duty was, however, to be paid once only in the course of a settlement, and to recoup the loss which would thus arise on numerous passings of property at the deaths of life tenants, a further 1 per cent., called settlement estate duty, was charged in addition to the estate duty leviable in respect of all settled property, excepting where the only life interest after the death of the deceased was that of a surviving spouse.

It then only remained for the Chancellor of the Exchequer to give the sliding scale at which the duty was to be levied, and when it is mentioned that this ranged from 1 per cent. in the case of estates exceeding £100 and not exceeding £500, to no less than 8 per cent. in the case of estates exceeding £1,000,000, it will be seen that a very considerable charge was instantly placed upon large estates devolving by reason of death.

The full scale, together with the two amended scales which have since been brought into play, are shewn in Part III., Table XI.

Turning next to the duties of the B class, the changes to be effected were of a simple but far-reaching nature. The consanguinity scales were equalized by sweeping away the additional rates of succession duty imposed by Mr. Goschen's 1888 Budget, and treating the payment of estate duty as covering the 1 per cent. legacy or succession duty which would otherwise have been payable by lineals. But there remained one further step in order to put the succession duty on exactly the same footing as the legacy duty, and this consisted in charging the former duty on the capital value of real estate where the beneficiary took absolutely, and not merely limiting the charge to one in respect of the value of his life interest only. With these changes legacy duty and succession duty became practically identical in their incidence. "Thus," said the Chancellor of the Exchequer, "there will, in fact, be only one B duty, equal in its incidence on all kinds of property, real and personal, settled and unsettled, just as there will only be one A duty, the estate duty, instead of three,

and that one duty likewise equal in its incidence all round. There will be two duties, instead of five duties, and two equal duties in the place of the chaotic inequality of incidence which now prevails."

As to the financial results expected from these changes, it was estimated that ultimately an additional £3,500,000 to £4,000,000 would be produced, thus bringing the death duty revenue up to about £14,000,000. Of this amount some £2,500,000 would go to the local taxation account, arrangements having been made for the continued transfer to that account of a sum equal in amount to that which would have been payable had the probate duty not been abolished. Sir William Harcourt referred on this occasion to the objections which he had originally expressed to the allocation of certain taxes, or portions of them, to local taxation which hampered the action of Government in dealing with the imposts affected, and it should be noted that this change involved the abandonment, even as a theory, of the plan instituted by Mr. Goschen for calling on personalty to contribute to local taxation.

In making these estimates, it is probable that Sir William Harcourt himself hardly realized what a powerful weapon his scheme was placing in the hands of his successors, for with practically no alteration in its general principles, and with an increase only in the rates of duty, this same scheme is now annually producing the colossal sum of over £25,000,000. In the immediate future it was destined to make smooth the paths of the Unionist Government, both in their measures (initiated, however, by the Spencer programme) for strengthening the Navy and the

defensive forces of the country, and also for the relief of the agricultural interest by way of grants to the rates.

For the year 1894-5 a full result was not obtainable as the new duties only applied to the estates of persons dying after the proposals had become law, and the increase was estimated at no more than £1,000,000.

This still left a sum of £1,379,000 to be found, and as a first move towards obtaining it the Chancellor turned to the income-tax. Here again, as in the case of the death duties, resort was had to the principle of "graduation," which, as time went on, was to become an increasingly important factor in Liberal finance. The tax was to be increased from 7d. to 8d. in the £1, the additional 1d. being estimated to produce in the present year £1,780,000. But the actual realizable increase was reduced to £330,000 by the following treatment: First, by way of compensation for the heavy burden placed upon land by the new death duties, a step, insufficient indeed and too long delayed, was taken towards the substitution of net for gross income in the assessment of real estate under Schedule A, an allowance being given of $\frac{1}{10}$ (afterwards $\frac{1}{8}$) in respect of land, and of $\frac{1}{6}$ in respect of houses. Secondly, the scheme of allowances and abatements was varied by granting total exemption on incomes up to £160 per annum, instead of up to £150, as formerly; and by allowing an abatement of £160 upon all incomes up to £400 and an abatement of £100 on incomes between £400 and £500.

As a result of these concessions a deficit of over £1,000,000 had still to be faced, and to obtain this

remaining balance it was decided to impose an additional duty of 6d. a gallon on spirits, and one of 6d. a barrel on beer, Sir William expressing the opinion that these duties would fall (as proved to be the case), not on the individual consumer, but on the growing profits of the trade.[1] These additional duties on alcohol were estimated to produce £1,340,000, and with them the budget statement closed, for the balance sheet now shewed a sum of £291,000 to the good to provide for contingencies.

The strongest exception was, of course, taken by the opposition to the death duties which, the Government were told, would be evaded to the utmost, and would press with great severity on the landowners especially on those in agricultural districts. Disappointment was expressed at the omission to deal on a large scale with the question of local taxation, and the abatements under Schedule A on houses and lands were stigmatized as inadequate. Much complaint also arose from certain quarters of the additional duties on alcohol.

On the resumption of the debate, the charge levelled against the Government as to the unfairness of the burdens placed on land, as compared with other kinds of property, was met by Mr. Henry Fowler (afterwards Lord Wolverhampton) with a masterly exposition of the facts of local taxation. Having shewn that the aggregate taxation of the country for local rates had increased in the years since 1868 from £16,500,000 to about £30,000,000, he pointed out that it was not the agriculturist who had suffered, for

[1] Contrast however his criticism of Mr. Goschen's additions to the beer and spirits in his fourth budget, as a tax on the consumer, p. 42.

nearly the whole of the increase was attributable to the metropolitan and urban districts. In a very detailed statement, he submitted that at no time during the century had the average rate in the £ of the rural rate been so low, or, he added, that of London rates so high, as in the commencement of the nineties. These conclusions immediately drew from the opposition benches a retort to the effect that never had agricultural depression been so great or the wealth and rateable valuation of London so high, and paved the way to much further discussion on the very wide topic of the equalization of taxation between realty and personalty.

On the Bill coming up for the second reading, Mr. Grant Lawson took the unprecedented course in a budget discussion of moving "that the Bill be read a second time upon this day six months," and devoted a long speech chiefly to a criticism of the death duty proposals, many other speakers following in the same strain. Mr. Bartley neatly summarised the principles involved in the whole Bill, by reducing them to three in number. First, he said, there was the systematising of the plan of graduated taxation. Secondly, there was the assimilation of real and personal estate for the purpose of taxation, and thirdly there was the indirect and partial acknowledgment that capital was to pay more than an industrial income under the system of graduated taxation, not, however, in his opinion a satisfactory method of differentiation. In connection with the last point, and in view of the discussion of this question in 1906 and 1907, it is of great interest to note a statement made earlier in the debate by the Chancellor of the Exchequer,

who shortly summarised the practical administrative reasons against the differentiation of the income-tax. "The graduated estate duty," he said, "may be, in fact, reckoned in terms of an annual charge upon the estate, and in that shape may be regarded as a graduated income-tax, which is levied only upon realized property, and does not fall upon what are called 'precarious' incomes. So that, in point of fact, you do arrive at the result which is aimed at in the demand for a graduated income-tax falling upon what are called 'spontaneous,' as distinguished from 'industrial' incomes."

Those who deplored the weakening of the income-tax as a fiscal weapon by the introduction of "differentiation" (in 1907), referred in vain to this authoritative statement of the intention of the author of the estate duty to deal with the grievances of "earned" income by this means, and pointed out, equally in vain, that the burden placed by increasingly high death duties and income-tax upon incomes from property was out of all due proportion to the taxation of "precarious" incomes.

Differentiation between kinds of income, however, in spite of Mr. Bartley's efforts, was a side issue only on this occasion. Graduation according to their amount, on the other hand, was a burning topic throughout the discussion. The principle naturally appealed to the growing section of Liberal opinion in the House which held that the poorer classes were taxed in comparison with the rich beyond their means. Sir William Harcourt himself defended it as a development of the policy of financial reform, initiated by Sir Robert Peel. Both that statesman and Mr.

Gladstone " had throughout used the great engine of the income-tax and other direct taxation, in order to relieve the humbler classes of the community from a multitude of taxes which they were not able to bear." This was undoubtedly the effect, from a fiscal point of view, of the policy pursued by those statesmen; but as a conscious object of his policy it does not, as has before been mentioned, figure in Mr. Gladstone's classic speeches as it had done during the last few years of discussion upon the balance of direct and indirect taxation. It is certain that in his great days he would, in common with all the orthodox economists of his time, have repudiated the doctrine of graduation, which was now invoked to complete the adjustment of the incidence of taxation between the richer and poorer classes of the community, with all the energy at his command.

The attitude of the three chief leaders of the opposition was characteristic. Mr. Chamberlain pronounced himself, in accordance with his earlier declarations in the " Radical Programme," in favour of the principle. Mr. Balfour, treating the question as of somewhat academic interest, succeeded in avoiding a definite expression of his opinion on its merits, and relied on the various practical and political objections which the debate had revealed in his opposition to the measure. It was therefore left to Mr. Goschen, whose earlier speeches and actions as Chancellor of the Exchequer had exposed him to the suspicion of sympathy with graduation, to atone by the strength of his present condemnation of the new heresy for the uneasiness which, as he felt, he must sometimes have caused to his Conservative supporters in the

past. He had little difficulty in defending his estate duty super tax of 1889 as being based merely on the same principle as the income-tax exemption. As regarded a systematic graduation, a totally different thing from the taxes to be found in our traditional fiscal system, he pitched at once on the one unanswerable objection—an objection not of principle but of its application—when he pointed out that "there were no stages, no landmark, nothing whatever to guide you. There is no principle of justice, no principle where you can say you ought to stop, no principle of prudence, no principle whatever." Further, it was "bad finance to set any tax so high that everybody sets about thinking how he can evade it." So smuggling had been the concomitant of high indirect taxes. If it were desired to cause a distribution of property during life, "the Chancellor of the Exchequer ought to finance for the Exchequer and not for social reform." But "dispersion of capital did not necessarily mean social reform. Our large accumulations had made London the banking centre of the world. Equality of sacrifice was impossible to attain"; and Mr. Goschen endorsed the opinion which had been loudly expressed in the discussion that a tax equal to ten years' net income must have a disastrous effect upon the landed estates.[1]

The Chancellor of the Exchequer having wound up the debate in a fighting speech, the House divided, the list shewing 308 "ayes" and 294

[1] An amendment, moved in Committee by Commander Bethell, against graduation, gave Mr. Goschen and others a further opportunity of arguing the question.

"noes," a slender majority of fourteen for the Government.

Any attempt to give a detailed account of the discussions which followed the second reading would far exceed the limits of this study.

The points which have been touched on above were again and again repeated and elaborated, and very confident predictions uttered, more especially by Mr. Bowles, that evasion would disappoint the hopes of the authors of the Bill. It was not until the 17th of July, 1894, that is to say, three months and a day after its first introduction, that the third reading of the Bill was carried, when it passed the Commons with a majority of twenty without the closure having been applied to any stage of the discussion, a result due to the exercise of the highest qualities of leadership and parliamentary skill on the part of Sir William Harcourt.

The passing of the Finance Bill through the House of Lords was marked by a strong protest from the Duke of Devonshire against the "accumulated horrors of aggregation and graduation," and by an important speech from the leader of the opposition and master of that House, Lord Salisbury. He naturally denounced the idea of graduation, considering the assertion that either Sir Stafford Northcote or Mr. Goschen had been responsible for it "a mere juggle of words"; but he abstained from any promise to reverse the policy and, what was more important, he allowed the measure to pass. In view of the fate of the 1909 Budget, in some respects perhaps a less "violent and revolutionary departure from former principles of finance" than that of 1894, the words in which he defined the constitutional position are

of interest. While insisting as strongly as possible on the maintenance of the legal powers of the House of Lords, he observed :

" It is perfectly obvious that this House, in point of fact, has not for many years past interfered by amendment with the finance of the year. The reason why this House cannot do so is that it has not the power of changing the executive Government, and to reject a Finance Bill and leave the same executive Government in its place means to create a deadlock from which there is no escape. If the House of Commons had rejected this Finance Bill during the present month, there would no doubt have been considerable inconvenience ; but at least another executive Government would have been provided, whose duty it would have been to have suggested an alternative for making fresh provision for the year. But if this House were to reject a Finance Bill or to amend it so that the House of Commons would reject it, as the same executive Government would remain in office there would have been obviously the greatest inconvenience in dealing with the public finances. I do not, therefore, in the least degree dispute the necessity of the accepted practice that the House should not, as a rule, interfere with the finance of the year ; but at the same time I think it very important, in view of the changes which have come over the constitution, the proceedings, and, I may add, the authority of the House of Commons, that we should rigidly adhere to our legal powers, whatever they may be."

The Bill accordingly passed through the House of Lords on the 30th of July without a division.

SIR WILLIAM HARCOURT'S THIRD (AND LAST) BUDGET, 1895-6

May 2, 1895.

It was on the 2nd May, 1895, that Sir William Harcourt rose to make his last financial statement. The House to which he addressed himself is said to have been the thinnest on record for such an occasion, a state of affairs which was perhaps explained by the growing conviction that the present Parliament could not long survive.

The Chancellor of the Exchequer indeed himself announced, in the course of the debate, that this would probably be the last time on which from a responsible position he would be able to use words of warning against the ever-increasing national expenditure. The defeat of the Government actually took place in the following month, and closed too soon the official career of a statesman who had shewn himself a commanding figure in the fiscal history of this period.

Without any preamble the Chancellor of the Exchequer opened his statement by giving the Committee an account of the expenditure and revenue of the past year. The former had amounted to £93,918,000 and the latter to £94,684,000, leaving a realized surplus of £766,000, as compared with the estimated surplus of £291,000. This surplus, which was, in orthodox fashion, appropriated to the liquidation of the permanent debt under the old sinking fund, more than exceeded the debt created within the year for the barracks and telephones, and the revenue

of the year had, therefore, more than covered the expenditure within the year.

The general results obtained shewed with what remarkable exactness the original estimates had been framed, the items relating to the new death duties and to the amended income-tax being especially singled out by the Chancellor of the Exchequer as "miracles of financial calculation," commendation which was cordially endorsed by Mr. Goschen and other speakers.

Following the usual course, some details of indirect taxation were first supplied, this head being always of interest as reflecting the true economic condition of the great mass of the people. The yield of Customs, which shewed an increase of £440,000, or 2·2 per cent. more than in the year 1893-4, was held to be satisfactory. Some of the particular items of this increase were not uninteresting. Tea had yielded £3,587,000, an increase of £37,000 over the estimate and £94,000 over the previous year, a rate of increase more than twice as great as the increase of population. Tobacco, an article always indicative of the consuming power of the people, had produced £10,416,000, an increase of £136,000 over the estimate and £295,000 over the yield of the previous year. But in this case the comparison was hardly a normal one, as the consumption of 1893-4 was no doubt seriously affected by the long-continued coal strike and by the general depression consequent thereon. Taking, however, a seven years' average, it was noted that the increase in this article was about three times as great as the increase in population. Looking at such results as these and at the ever-increasing consumption of

large quantities of non-dutiable articles (such, for example, as meat then averaging 119 lbs. per head of the population as against 108 lbs. in the early eighties), and bearing also in mind the lowered prices of these commodities and the general increase in thrift, facts were found, said the Chancellor of the Exchequer, " on which it is pleasant to dwell, as an antidote to that pessimism which delights to describe the condition of the people as one of progressive deterioration."

Turning to the revenue derived from liquor, Sir William Harcourt had to report that, both in the Customs revenue on foreign spirits and in the Excise receipts from home spirits, the returns had been considerably under his expectations and, indeed, would have been more so, had it not been for the " rush to rum," occasioned by the very severe weather of the previous February. In the case of beer, the estimated increase from the extra 6d. duty had been all but realized, and would certainly have been considerably exceeded but for the February cold snap which had given the fillip to spirits. The connection between the weather and the national revenue was, however, not to end here, for Sir Michael Hicks-Beach directly attributed a large portion of the great increase in the death duties to the exceptional mortality of the early part of the year 1895, caused by the extraordinary climatic conditions then prevailing.

Concerning the yield of the last-mentioned duties a very full statement was made to the Committee. The new scheme of death duty taxation had not been in force for a full year, and the position was accordingly complicated by the co-existence of two systems

during different periods of the twelve months. It will be sufficient to mention that the actual amount paid into the Exchequer from this source amounted to £8,727,000, as against an estimate of £8,800,000; and it was this close approximation of estimate to result which the Chancellor declared to be a marvellous achievement. These figures were, of course, exclusive of a sum of just over £2,000,000 which was paid direct to the local taxation accounts, and the gross sum actually provided by the taxpayer under this head, amounted, therefore, to about £11,000,000.

Under the head of general stamps a further increase of £568,000 over the estimate was reported and another remarkable approximation, considering the various changes which had been made, was shewn by the income-tax, which had produced £15,600,000 or an increase of £70,000 over the estimate.

Before turning to the prospects for the coming year, the Chancellor of the Exchequer had a word to say about the National Debt towards the reduction of which £12,718,000 had been allotted during the last two years, or an average of £6,359,000 per annum, a figure somewhat higher than the average of the previous eight years. Since 1891 the unfunded debt had been reduced from £36,000,000 to £17,400,000, and at the moment of speaking the gross liabilities of the State amounted to about £660,000,000, a reduction of about £100,000,000 in the last twenty years. But against these liabilities there were certain assets on the credit side of the account, for the large rise in Government securities had converted the deficiency on the Trustee Savings Banks' capital account into a considerable surplus, and the Suez Canal shares,

freed as they now were from any charge, were of an estimated value of nearly £24,000,000.

So much for the past year. As for the current year the estimated expenditure was put at £95,981,000, roughly an additional £2,000,000 on 1894-5, for which the Naval expenditure (now for the first time higher than that on the Army) was chiefly responsible. Adding the contribution which fell to be made out of the Imperial Revenue to local expenditure, the gross amount to be raised reached the great total of £103,243,000. Sir William Harcourt was himself appalled at the magnitude of this sum, but he declined to make any appeal for economy, as no one would listen to him in that strain. His remarks in this connection, however, formed perhaps the most important portion of his speech.

The enormous growth which has since taken place shews that the country was still far from the danger point in this respect, though Sir William Harcourt held that the expenditure had "already reached the limits of tolerable taxation." "There is," he said, "a universal demand for more and more expenditure every year for every conceivable object, all of them excellent objects, but all of them pursued absolutely without any regard to their cost. Besides these demands for additional expenditure for every possible object, there are continual proposals to cut off first one and then another item of the public revenue. In private establishments you endeavour to regulate your outlay with some regard to your income, but in public administration you have to make your taxation keep pace with your profusion. I am not going to preach a sermon on this subject, because economy

(not only political economy) has become a lost art at the close of the century. It is a despised and unfashionable idea and I do not know whether, under any circumstances, it will ever come into fashion again. Everyone grumbles if money is not spent on his favourite fancy, but he grumbles still more when he is called upon to find the means of paying for it. But now, having made up our minds to spend this unexampled sum, it is time to consider what are the means we possess and what further means we require to defray the cost."

The means he possessed, as represented by the anticipated results to be obtained on the existing basis (treating the additional beer and spirit duties as expiring, as by law they did, in July) came to £95,662,000, thus of themselves nearly covering the additional £2,000,000 required. This fortunate position was due in a very great measure to the death duties, which were expected to furnish an increase of £1,373,000 on the receipts of the previous year, and which, as events proved, far exceeded this amount. The Chancellor of the Exchequer, indeed, took the Committee into his confidence by the remark that in introducing the new scheme of death duty taxation in 1894, the Government had in their minds the prospect of a largely increased Naval expenditure, and had looked to these new taxes to produce a sum to meet the additional demand.

It now only remained to shew how the estimated deficit of £319,000 was to be found, and for this purpose the very simple course was taken of re-imposing the additional beer duty calculated to produce £500,000 in the nine months. By this means the

deficit would be converted into a surplus balance of £181,000. The extra spirit duty, owing to Irish opposition and its disappointing yield, was abandoned; and as to the beer duty "the consumer had found no difference, the brewer had not suffered."

The discussions on the second reading and in Committee offer few points of interest, being for the most part echoes of the great debates of the previous session; but it may be noted that, on an amendment to limit the additional duty on beer to beer brewed from substitutes for barley malt and hops, Mr. Goschen appealed without success to the Chancellor of the Exchequer to take a more sanguine view of the prospects of the revenue and to dispense altogether with this £500,000. Sir William Harcourt also refused to extend the concession made in the Finance Act of 1894, by which, in the case of a husband and wife with a joint income of under £500 a year, the wife's income, if derived from a profession or employment, should be treated separately for the purpose of abatement.

This budget went through all its stages in less than one month, the Finance Bill receiving the Royal assent on May 30th.

SIR MICHAEL HICKS-BEACH'S BUDGETS.

FIRST BUDGET, 1896-7.

April 16, 1896.

THE new Chancellor of the Exchequer, Sir Michael Hicks-Beach, opened the first of what was destined to be a long series of budgets by a speech which, as on subsequent occasions, was singularly excellent in form. He described the year which had just closed as "financially speaking a most remarkable year, the revenue having been greater than in any previous twelve months and, in spite of an expenditure which had been larger than any since the great war, the surplus being one of the largest ever known." All the indications—the credit of the country, as shewn by the rate at which Treasury bills had been floated, the price of Consols, the sum applied to the reduction of debt, the deposits in the Savings Bank, the value of the exports and imports, railway earnings, the return of the Bankers' Clearing-House, the production of gold and the consuming power of the working classes—told the same tale of prosperity.

In this year of records the Exchequer receipts had reached £101,974,000, or £7,290,000 in excess of the previous year, and £5,812,000 in excess of Sir William Harcourt's estimate. The expenditure had, however, been swollen by great supplementary estimates,

£2,517,000, including £1,100,000 for increased work in the construction of ships, £476,000 for the Army (to bring the capitation grant to the volunteers up to date), and £120,000 for the Ashanti expedition, so that with savings of £734,000, the surplus realized was £4,210,000 the largest but two in fifty years. This surplus was not allowed to go to the old sinking fund, an evil omen at the outset of the new financial *régime*, but was devoted by the Naval Works Act, 1896 (59 Vic., c. 6) to capital expenditure in connection with the dockyards and naval ports.[1] The fact that it had not been till the month of June that the exports and imports and the railway receipts had begun to shew increases, instead of decreases, on the corresponding quarter of the preceding year, was held to exonerate Sir W. Harcourt from the fault he had so often imputed to Mr. Goschen of understating the revenue; and it was, perhaps, not unnatural that the yield of the reorganized death duties should have been placed at an unduly cautious figure. These duties had realized £11,600,000, besides the £2,452,000 paid to the local taxation account, a total of £14,052,000; and experience was to shew that this high figure was not due merely, as Sir Michael supposed, to the exceptional circumstances of the past year, an unusually high mortality among millionaires and the unexpected payment of estate duty on realty in full instead of by instalments. Excise was £850,000

[1] The Exchequer balance on March 31, 1896, £8,975,000, included £4,209,472, the surplus revenue for 1895-6 which was made applicable to the expenditure under the Naval Works Act, 1896 (59 Vic., cap. 6). There had also been advanced out of it £459,000 under the Telegraph Act, and £485,000 under the Naval Works Act, 1895.

and Customs £516,000 above the estimate; the net receipts from tobacco shewing an increase over those for 1894-5 of £330,000, which led the Chancellor of the Exchequer to refer to a calculation that £1,000,000 per annum was literally thrown into the gutter in the shape of ends of cigarettes and cigars!

In the course of a clear statement on the subject of the National Debt, funded and unfunded (gross liabilities), Sir Michael Hicks-Beach shewed that this stood on March 31, 1896, at £652,026,000, a reduction in the year of £8,134,000 (the largest in any year, except 1894-5); and that in forty years (since April 1st, 1857), £190,000,000 had been paid off, of which £100,000,000 had been discharged in the last thirteen years. He expressed the opinion, in which he had the cordial concurrence of Sir W. Harcourt, that by doing this the country had created for a time of emergency a reserve fund of incalculable importance. This consideration led him naturally to a survey of the growth of expenditure during the two decennial periods, 1875-6 to 1885-6 and 1885-6 to 1895-6. In this survey he followed the comparison instituted by Mr. Gladstone for certain periods from 1842 to 1877, between the annual percentage of increase in population, revenue and expenditure. The broad result for the last twenty years was that while population had increased 19 per cent.; taxation, under the four heads of customs, excise, stamps, and house duty, $16\frac{3}{4}$ per cent.; and income-tax, $15\frac{1}{2}$ per cent.; the expenditure had increased by no less than 68 per cent. The Army and Navy estimates accounted for the bulk of the increase, the first having grown by £4,066,000, the second by £8,866,000 (with £2,000,000 more to add

for the current year, making the estimate more than double that for 1875-6). Civil Service estimates had increased £1,266,000, education charges £6,673,000 (nearly quadrupled since 1875-6), and grants to local taxation £6,634,000. He drew the conclusion, to be largely falsified by events even during his own tenure of office, that it would be no easy task to impose increased taxation on our present financial system; and he pointed out that the direct taxpayer of the country had borne the bulk of the new burden following the continuous tendency of our financial policy for fifty years, a tendency which Sir William Harcourt regarded as "a most beneficial change and a just change."

The following figures were given:

	1841-2.	1861-2.	1891-2.	1895-6.
Tax Revenue - -	£50,000,000	£64,000,000	£83,200,000	£92,482,000
Direct - - -	27%	38%	44%	48%
Indirect - - -	73%	62%	56%	52%

Or

In 1841	direct taxation	stood at	£0	10s.	1d.	per head.
	indirect	„	„	£1	7s.	3½d. „
In 1896	direct	„	„	£1	2s.	6d. „
	indirect	„	„	£1	4s.	9d. „

"This, I think, the Committee will see, has been a progressive and remarkable change. I do not say the policy is wrong, but I must point out that our system as it now stands does not add to the popular support which any Chancellor of the Exchequer can enlist in aid of economy."

The expenditure for the coming year was estimated at £100,047,000, or £4,066,000 over the previous year's original estimates. Of this £3,122,000 was on account of the Navy estimates. If the cost for the

local taxation account (£7,310,000) were added, a total was reached of £107,357,000, " more than double the modest Budget estimate of Mr. Goulburn in 1846-7."

To meet this the estimated revenue was £101,755,000 (the death duties being put at a decrease of £650,000), and the estimated surplus was, therefore, £1,708,000. In spite of the expectations which the struggle over the preceding budget had raised in many quarters, Sir Michael Hicks-Beach announced that he did not intend to propose any alteration in the main principles of the last Finance Act, the fruits of which no Government could afford to sacrifice. Two minor changes he did, however, make (to cost £200,000), the most interesting of which was to exempt from aggregation with the property of a deceased person " such pictures, prints, books, manuscripts, works of art, scientific collections, or other things not yielding income, as appeared to the Treasury to be of national, scientific or historic interest."

The rest of the surplus was to go in relief of agriculture: (1) by the reduction of the maximum rate of the land tax and other small changes in it costing £100,000, and (2) by grants in aid of agricultural rates, which, in the current year, would absorb £975,000 and double that amount in future years. A margin or estimated surplus then remained of £433,000.

Sir William Harcourt was complimentary on the opening night, a tone he continually maintained towards his successor, and confined himself to some banter on his points like the retention of the extra 6d. on beer and the million which had been yielded in stamps by

the Kaffir boom. "I think," he added, with some prescience, "that we shall be very fortunate if we do not lose, before we have done, a great deal more than a million out of South African speculation!" He thought, however, that a surplus of this kind should have been used to give a general relief of taxation, such as a reduction of the income-tax, too high at 8d. for a time of peace; and he criticized the suggestion that the amount which might be deposited by individuals in the Post Office Savings Bank should be limited, though he agreed that a lower rate of interest might be given on the larger deposits. The Government did not proceed during this session with the legislation which had been contemplated on this subject.

Mr. Bowles endeavoured to put a good face on the failure of his predictions about the death duties by falling foul of the blunders of the Inland Revenue Department in their estimate of the revenue.

The debates in Committee raised no very new or important points. A discussion on the financial relations of this country with Ireland was postponed pending the report of the Royal Commission which was then considering the question; and a division was taken on a proposal to graduate the income-tax, which the Chancellor of the Exchequer promised to consider though unable to see any solution of the difficulty. Sir William Harcourt complained of the form of the public accounts (which his successor reminded him he had left unaltered), as not shewing the real revenue and expenditure.

But the real interest of the finance of the year centred not so much in the actual discussions on the

Finance Bill, as in the controversy raised by the Agricultural Rates Bill, which was introduced in a rather casual manner by Mr. Chaplin.

The arrangements made by Mr. Goschen for local taxation (see his second and fourth budgets) had remained unaltered except for the change necessitated by the reform of the death duties in 1894 (see p. 86). In 1893 Mr. Henry Fowler, then President of the Local Government Board, made a Report to the Treasury (House of Commons, No. 168 of 1893), in large measure a continuation of Mr. Goschen's Report of 1871 on the subject of local taxation, the gist of which was that " while local rates had, during the last twenty years, increased far more largely than they had during the preceding half century, the increase had been due to additional expenditure incurred by urban authorities, mainly in connection with sanitary and educational requirements . . . that the substantially increased assistance rendered by the general taxpayer to the local ratepayer under Mr. Goschen's arrangements was a material set-off against the rise in rates ; that as regards rural rates they were comparatively low or had practically remained stationary in recent years ; and that if ratepayers were overburdened it was the occupiers and not the landlords who were overstrained " (Memorandum by Sir Edward Hamilton for Royal Commission on Local Taxation, 1899, p. 22).

But though the rates might be low, prices and rents were lower, and the unsatisfactory condition of agriculture had long been the subject of much discussion. The augmentation of the death duties in 1894 gave the landed interest an excellent opportunity

of restating their grievances, and the Government was induced to appoint a Royal Commission, with Mr. Shaw Lefevre (now Lord Eversley) as chairman, to inquire into the whole matter. The decision of Lord Salisbury's administration to maintain the new death duties made it incumbent on them in some other way to "do something" for agriculture. The Royal Commission issued an interim report early in 1896 recommending action for the relief of distress, and the Government accordingly introduced a Bill providing that occupiers should be liable to pay only half the rates in respect of agricultural land in England and Wales, and that the annual deficiency arising from such exemption, which was estimated at £1,560,000, should be made good by a further grant out of the estate duty derived from personalty —"a ridiculous farce," Sir William Harcourt described it. Equivalent grants for Scotland and Ireland of £214,000 per annum, and £176,000 per annum, brought the total to nearly two millions for a full year.

The method of relief thus adopted was one which, from almost any point of view, deserved the severe criticism which it duly received from Sir Henry Fowler, Sir William Harcourt and others. It was, in the first place, an extension of the wasteful system of doles or subventions from the Exchequer, which it had been the object of the measure of 1888 to terminate. It aroused not unnatural jealousy among the urban ratepayers who saw a means of relief which might have been shared with them or given to the whole community, by a simple reduction of the income-tax or sugar duty and restricted to a single class. Finally, it was by no means certain that the dole would go

to the right quarter, and that with a return to relative prosperity it would not accrue to the landlord in an increase of rent. The consequence of the opposition which the measure aroused was that before it passed into an Act (59 and 60 Vic. c. 16) its provisions were limited to five years, though it has since been continuously renewed; and a Royal Commission to inquire into local taxation was promised, the recommendations of which, when they at last appeared on the eve of the South African War (in 1899), were long to remain without any practical effect.[1]

The Finance Bill passed through all its stages without a word of discussion in the House of Lords.

SIR M. HICKS-BEACH'S SECOND BUDGET, 1897-8.

April 29, 1897.

When, twelve months earlier, it had been the duty of Sir Michael Hicks-Beach to call the attention of the Committee to the financial condition of the country, he had, as he said, to place before it the record of a very prosperous year. "Financially we seemed to be on the crest of the wave," and, in spite of political anxieties and unrest in South Africa, distress in India and the war between Greece and Turkey, the revival of trade begun in the summer of 1895 had been well maintained, and the record of the present year had surpassed that of its predecessor. The result was another great surplus, due, no doubt,

[1] For note on the Agricultural Rates Act and subsequent legislation affecting local taxation, see p. 283.

to over-cautious estimates; but also to the favourable industrial conditions. Well might Sir William Harcourt remark that Sir Michael bid fair to "acquire the addition of the adjective, which formerly belonged to a Chancellor of the Exchequer, who went by the name of Prosperity Robinson." The revenue had produced £103,950,000, *i.e.* £3,470,000 more than the budget estimate, or, with the addition of the local taxation revenue (£8,249,000), £112,199,000 as against £109,340,000 in 1895-6. All heads of revenue except the land tax shewed an increase, income-tax was £550,000 above the Exchequer receipts of the previous year, the amount per penny was larger than ever before, and the remissions granted in 1894 had been more than recovered. Customs and excise receipts bore equally satisfactory testimony to the condition of the people. The death duties had produced £13,963,000 in all as against £14,053,000 in the previous year, just about realizing the original calculations of Sir William Harcourt. Of this amount the Exchequer received £10,830,000, over a million more than the anticipation, an error in estimating which Sir Michael endeavoured to explain by stating that the transfer to the Local Taxation Accounts under the Agricultural Rates Act had been less than had been expected whereby £143,000 had been saved to the Exchequer, that the remission on settled works of art had not taken effect in the year, and that a more than average number of large estates had fallen in.

As regards expenditure immense supplementary estimates, encouraged no doubt by abounding revenue, had unfortunately become the rule instead of the

exception, and over 2¼ millions had been taken for Army, Colonial and Civil Services. Sir Michael stated the surplus, " after deducting Exchequer issues from the revenue," at £2,473,000 which he said had been devoted to the purposes of the Military Works Act of this session. The practice of diverting the old sinking fund to purposes for which fresh borrowing would have been required, a practice which Mr. Goschen had always apologized for and Sir William Harcourt scrupulously refrained from [although as we now know he had privately endorsed Sir Michael's action in the previous year] was thus becoming the rule, and began again to introduce confusion into the public accounts.[1]

As for the debt, the total net reduction had nevertheless been £7,584,000, and the unfunded debt had been simplified by the final extinction of the Exchequer Bonds, borrowed for the purpose of Mr. Goschen's conversion operations, and of Exchequer Bills latterly issued for a term of five years, a security invented two hundred years back by Charles Montagu in order to carry out a fresh recoinage scheme. Treasury Bills alone remained, but Exchequer Bills

[1] The Exchequer balance on the 31st of March, 1897, included the unappropriated part of the surplus revenue of 1895-6 which was made applicable to the expenditure under the Naval Works Act, 1896 (59 Vic., cap 6), and also £2,473,216, the surplus revenue for 1896-7, which was similarly appropriated to expenditure under the Military Works Act, 1887 (60 Vic., cap. 7). There had also been issued and temporarily advanced out of the Exchequer in 1896-7 :

£50,000	under the	Telegraph Act, 1892.
£320,000	„	Barracks Act, 1890.
£219,000	„	Uganda Railway Act, 1896.
£95,000	„	Public Offices (Acquisition of Site) Act, 1895,

which had reduced the above Exchequer balance by £684,000.

were, as we shall see, to be revived under the stress of the Boer War.

For the coming year the estimate of expenditure was to be increased by £726,000 on account of the Voluntary Schools Act and the Necessitous Board Schools Act, and the revenue was estimated (again cautiously as regarded death duties) at £103,360,000 to meet this increased expenditure of £101,791,000, which left a sum of £1,569,000 to dispose of.

The disposal of this prospective surplus led to some controversy and several alternative budget proposals in Committee.

Mr. James Lowther would have swept away the tea duty and put 5s. a bushel on corn. Captain Pretyman pleaded for relief to the agricultural interest, under the head of death duties, and would have added a penny to the income-tax. Sir William Harcourt would have saved the money destined for voluntary schools, and, arguing on a basis of £2,600,000 to play with, would have taken 2d. off tea at a cost of one million, as Mr. Goschen had done, and then 1d. off the income-tax, thus relieving all classes of the community. "It has," he said, "been a standing rule that when the customs reached the point of £20,000,000 there had always been relief to indirect taxation under the head of customs. . . . The real time for reduction is when you have got a large surplus; it is no use putting it off to times which may be worse." Sir Michael Hicks-Beach had endeavoured to forestall this criticism by arguing that, in granting funds for agricultural rates and voluntary and necessitous board schools and by relieving what was the most oppressive of the burdens on the people,

that of local taxation, he had, through these measures, effected direct or indirect reductions of taxation. He hoped that some day it might be possible to make a sensible reduction in the income-tax; not by transferring the burden to other shoulders, but "in quieter times than these" by a real reduction of expenditure. And he did not think it wise to make small changes in the system which, even if desirable in themselves, would be apt to "harass and disturb the complex and delicate fabric of our trade." Well-sounding arguments enough, but not conducive to keeping down expenditure.

The Chancellor of the Exchequer, however, announced that £500,000 of his surplus was to go to an increase on the programme put forward by the First Lord of the Admiralty for the Navy; and £200,000 was required for an increase of the garrison in South Africa. The latter proposal provoked a protest from Sir William Harcourt against a policy of exasperation in South Africa and a counter attack from the Colonial Secretary, Mr. Chamberlain, who denounced his language as "pernicious and dangerous and unpatriotic in the highest degree." Postal reform, including a regular delivery to every house in the United Kingdom, a reorganization of the sample and book post, and reform in the telegraph service, was to cost £366,000, and the margin of £503,000 was then left for expenditure in connection with education in Scotland and Ireland, and the entertainment of foreign and colonial guests at the Jubilee.

The Jubilee of Queen Victoria was the great event of this year, and it was nowhere more worthily commemorated than in the sixty years' retrospect

of the material progress of the country, which was a striking feature of this budget speech.[1] Mr. James Lowther, indeed, ridiculed it as a rehearsal of the "stalest pamphlets of the Cobden Club"; but it may well be that generations will pass before the British people reach again so high a level of widely diffused comfort, of financial ease both public and private, of social and political contentment, of class union, of world power, and of superiority to foreign rivalry and competition as they enjoyed in the closing years of the great Queen, before the outbreak of the South African War. It was a culminating point in the national history which Sir Michael Hicks-Beach did well to celebrate in a passage the whole eloquence of which lay in its facts and figures.

The most interesting points raised in the discussions in Committee were (1) as to the burden imposed on the poorer classes in general, and in Ireland in particular, by the proportion of indirect to direct taxation, and (2) as to the working of the new death duties.

The Report of the Royal Commission on the Financial Relations between Great Britain and Ireland, published in 1896 (C., 8262), gave rise to the discussion on the first of these subjects. It is probable that no financial Blue Book has aroused greater public interest in our time, or produced more discussion both in Parliament and outside, than the various reports contained in this volume; with their general concurrence in the view based on a series of statistical approximations that, while the "taxable capacity" of Ireland was about one-twentieth that of Great Britain, her actual contribution to the

[1] *Parl. Debates*, vol. xlviii., 1897, pp. 1263-1268.

common revenue was in the proportion of one-twelfth. Whether Mr. Childers' conclusion that Ireland was overtaxed by something like two and a half millions a year were adopted; or whether that conclusion should be modified, in accordance with the opinion of Sir David Barbour and Sir Thomas Sutherland, by the consideration that Ireland's contribution to the common expenditure, on a comparison of the balances available for common purposes such as the Navy, the Army, and the National Debt (after the exclusively local expenditure of Ireland and Great Britain respectively had been defrayed), appeared to be something like a million short of what would be required of her on the basis of her taxable capacity; and whether this consideration did not dispose of the Irish grievance; were questions which were debated and decided with far too exclusive reference to the political and national prejudices of the disputants.[1] But the economic significance of the researches of the Royal Commission lay in the attention they focussed on the question of the incidence of indirect taxation on the poorer classes of a community. There was assuredly nothing novel in the doctrine that a system which raised a large proportion of taxation by duties on articles of general consumption was likely to bear more hardly on the poor than on the rich, for the latter cannot, after a certain point, increase their use of such articles in proportion to their means. The poor necessarily consume more dutiable articles in proportion to their income than richer taxpayers.

[1] See an article in the *Edinburgh Review* for January, 1907, containing what is perhaps the ablest and most judicious summary of the various arguments of these reports.

What was impressive, however, was the demonstration of this truth in relation to Ireland, a country in which the number of the poor was greater in proportion to that of the rich than in Great Britain, and in which those branches of indirect taxation which fell upon the mass of the people produced about the same revenue per head in Ireland as they did in Great Britain, while the taxes which fell upon the wealthier classes produced a very much smaller revenue per head.[1] "Ireland," in short, as Mr. Nassau Senior had observed in 1864, "is overtaxed *because* she is poor."[2] "Precisely the same disadvantage," writes the Edinburgh Reviewer, "from which Ireland is represented as suffering might be shewn to exist, and for precisely the same reasons, in any poor district, and especially in any poor and spirit-drinking district of England or Scotland," and he drew the obvious conclusion that so far as Irish overtaxation is either a poor man's grievance or a spirit-drinker's grievance, "if it requires to be dealt with, it must be by changes of taxation applicable to the whole of the United Kingdom."

So long as the claim of Ireland to be treated as a separate financial entity remained unrecognized, no direct result could be expected from the recommendations of the majority of the Commissioners; nor were Irish politicians at all disposed to agree to any action on the suggestion put forward that Irish expenditure was wasteful and extravagant and should be reduced. The main result of their investigations was, therefore, to encourage the policy of recognizing the claims of Ireland to be treated as a poor district of

[1] Final Report, p. 184. [2] *Ibid.*

the United Kingdom, and, as regards Imperial finance, to strengthen the tendency towards increasing the proportion of direct to indirect taxation.[1]

During the discussion of the whole question, which was inaugurated by Mr. Arthur O'Connor, Mr. George Bartley delivered another of his sensible speeches on the latter point. While admitting that in spite of improvements carried out of late years in the proportion between the two forms of taxation inequality still existed against the poor man, he argued that theoretical accuracy was impossible, and that "the only plan of relieving the poorer classes was by making it up to them in other ways." Education in all its branches had become an enormous means of readjusting taxation between rich and poor; so with sanitation and housing measures. The Chancellor of the Exchequer reminded the Committee that the "tea duty is the only way by which we make large numbers of the population contribute in any way to the revenue," and did not think that its remission would tend to "that economy which the Hon. Member for Mayo advocated in his speech." As regarded Ireland, his argument, both on this and on an amendment moved later on for a reduction of the tobacco duty, was to the effect that slight remissions of taxation did not reach the consumer and that it was not worth while to sacrifice large portions of the revenue in order to bestow a small relief on Ireland. That would be "rather like killing a sheep in order to get a mutton chop."

[1] For further development of the financial relations between Ireland and Great Britain see, among other publications, *Report of the Committee on Irish Finance*, cd. 6153, 1912, and Mr. Crammond's article on "Federal Finance," *Quarterly Review*, October, 1913.

The second reading debate was opened by Mr. James Lowther on lines which have since become very familiar through the tariff reform propaganda. He insisted on the dangerously narrow basis of our taxation, capable, as he said, of expansion in time of need only in one or two directions; and on the instability of our present customs and excise revenue. The taxation of corn and of imported manufactured articles was the remedy he advocated. Sir Michael replied on the free trade side in terms equally familiar. He thought that the enormous revenue raised by our fiscal system which was at all events equal to the present demands, our foreign trade, the advantages derived from our foreign investments, and the fact that we were the carriers of the world, were a sufficient answer to such theories. He questioned the possibility of defining manufactured goods, and referred to the fact that the system of *ad valorem* duties was knocked on the head by Mr. Gladstone in 1860. But he was not prepared to say that our present scheme of taxation was infallible or that a narrow basis of taxation might not be a source of danger in a great war or serious depression of trade. Sir William Harcourt, after stating that the permanent stability of the revenue depended upon averages and not upon particular receipts ("My valued friend Sir Alfred Milner has often spoken of the law of averages as the deity that presides over the public revenue"), brought the discussion back to the ground of incidence. "Sir," he said, "if there is anything we have learnt from that important document, the Report of the Irish Financial Commission, it is this: it has proved what anyone who has studied the subject must know to be the

case, that indirect taxation presses unduly and disproportionately upon the poorer classes of the community. In Ireland it presses unduly upon the whole country, because as a class they are very poor. But it is equally true in England that it presses unduly upon the poorer classes of the English community. Therefore, if you want to carry out the great principle of taxation—that you should put the burden on those who are best able to bear it—you ought, in the course of your taxation, to follow the principle initiated by Sir Robert Peel, and carried out by Mr. Gladstone, of diminishing the burden of indirect taxation in its proportion to direct taxation.[1] Now the proportion is less grossly unjust than it was before household suffrage and when the privileged classes had the sole disposal of the taxation of the people. That was the condition of things before the year 1841. Well, we have gone on improving that until at last, as stated by the Chancellor of the Exchequer in his speech, 39 per cent. of the total taxation is now raised by direct taxation. I for one should never be satisfied till the proportions were at least made equal, and therefore I would seize any opportunity of diminishing indirect taxation; first of all because it is the natural and proper method of meeting the

[1] It was, however, the fiscal legislation between 1850 and 1860, as pointed out by the Financial Relations Commission, which had so seriously altered the conditions to the detriment of the poorer country; *i.e.* Mr. Gladstone's extension of the income-tax to Ireland in 1853 and his revision of the spirit duties in Ireland in 1854, by which they were raised from 3s. 4d. to 4s. a gallon. This process was continued in 1856 by Sir G. Cornwall Lewis and in 1858 by Mr. Disraeli till the rate stood at 8s., as in Great Britain. In 1860 the rate was raised to 10s. in both countries. If it had not been for these changes the contribution of Ireland would hardly have been increased beyond the point at which it stood in 1817.

Irish grievance . . . and you will also meet the grievances of the poorer classes of the English people. I fear it will shock my Right Honourable friend, the Member for Thanet, who wishes to increase indirect taxation. There, then, is the issue between us."

When in later years free trade was seriously challenged in a succession of general elections, the importance of this line of argument was recognized in the promise that tariff reform would take the form of a readjustment and not of an augmentation of the indirect taxes and taxes on food. One of the most marked results of the fiscal discussion, and one which may be productive of some inconvenience to framers of budgets in the future, has, in fact, been to instruct the electorate as to the incidence of indirect taxes of all kinds.

Sufficient time had now elapsed since the institution of the estate duty for some idea to be formed on the working of the new system, and it was clear that the Government appreciated too highly the advantages of this new source of revenue to think of amending it except in small matters of detail, and that they preferred to meet the grievances of agriculturalists by compensating them in other directions. In his opening speech the Chancellor of the Exchequer had noted that the amount of the free personalty which had come under the death duties, roughly about 160 million pounds, had declined by 10 millions, and seemed to attribute this decline to a tendency among owners of property to hand over capital to their heirs during their life time. Nothing, indeed, is more remarkable in the history of the estate duty than the inexpansiveness of these figures. But on this occasion

the deficiency had been made up on realty which had risen from £29,971,000 to £39,606,000, owing, it was thought, to a continued preference for payment in cash instead of by instalments spread over seven years.

This was a point to which Captain Pretyman specially addressed himself in a speech which called forth very high praise from Sir William Harcourt as well as from the Chancellor of the Exchequer. He shewed by actual instances how, in many cases, payment by instalments had been too great an annual burden on an estate, and the owner had, therefore, been driven to raise a mortgage to pay the duty and saddle the estate with a perpetual liability of a smaller annual amount. He pointed out that the landlord was subject to responsibilities in respect of the employment of a large number of persons on the estate, and of keeping tenants going by reductions of rent which did not fall on the capitalist owner of stocks and shares; and that the avoidance of the duty so largely practised by the latter was not open to the landlord. He therefore suggested amendments to the effect: (1) that no property should pay more than 15 per cent. of its capital value under the Act within a period of sixteen and a half years (half a generation); (2) that insurance policies should not be charged, and (3) that a more adequate allowance should be made for agricultural outgoings. If these changes cost as much as two million the cost could be met by a penny on the income-tax. Sir Michael Hicks-Beach in reply was prodigal of nothing save compliments to Captain Pretyman; protested that he had never argued against the principle of the Finance Act; and

declined, by adding to the income-tax, "to tax trade in order to relieve realized property." He was hardly less uncompromising than Sir William Harcourt himself, who shewed that, out of fourteen million pounds yielded by the new tax, agricultural land paid only £843,000; that at the same time relief had been given under Schedule A of the income-tax to the extent of £200,000; that the Agricultural Rates Act had relieved them to the tune of £1,330,000, and land tax £100,000, a total of £1,700,000; so that agricultural land was over £800,000 to the good on the whole of these transactions. The answer appeared conclusive, but the fact remained that for good or evil the Finance Act of 1894 gave a considerable impulse to the process which low prices and low rents had begun, of breaking up, or causing the transfer of, the landed estates of the country.

It may be noted that the Chancellor of the Exchequer accepted a clause, moved by Mr. Bartley, to prohibit the aggregation of the incomes of husband and wife for income-tax purposes if the incomes were separately earned by personal labour; and that an interesting short discussion took place on the tobacco duty which, however, was not to bear fruit till the following year. Also that the question of the duty on works of art was raised by Mr. Legh, who quoted Sir William Agnew's estimate that £3,500,000 worth of pictures had left the country since the Act of 1894 was passed. He proposed that "artistic" as well as "national" "scientific" and "historic" interest should entitle a collection to exemption; but it was replied that in practice nothing would be gained by the addition, and that the section would

be interpreted to cover collections which were of national or historic interest in the sense that they would be purchased or accepted as a bequest by one of the national collections. No change was made in the law until the Finance Act of 1909-10.

SIR M. HICKS-BEACH'S THIRD BUDGET, 1898-9.

April 21, 1898.

Sir Michael Hicks-Beach had been wrong in thinking a year back that the country had reached the apex of prosperity, and he frankly admitted that it would be useless to apologise for a miscalculation which resulted in the revenue having exceeded his estimate by £3,570,000. The Exchequer revenue had been £106,614,000, and, with the sum of £9,402,000 paid to the local taxation accounts, the revenue had reached the " gigantic total " of £116,016,000.

Both customs and excise had been buoyant (in spite of the engineering dispute) owing largely to the jubilee festivities, beer having exceeded the estimate by £388,000 and tobacco, the yield of the previous year, by £419,000 (an increase of 3·8 per cent.). But the death duties formed the surprise of the year having exceeded the Exchequer estimates by £1,400,000, and the total yield, both for local taxation and the Exchequer, having reached £15,328,000. The main increase had been in the new estate duty, and the Chancellor accounted for it by the fact that 4,000 more estates had fallen in, that the estates had been larger, and that they had included nine millionaires. The amount of free personalty passing which

had fallen (to Mr. Bowles' satisfaction) by 10 million in the previous year had risen by 19 million to £172,710,000; the fact being that the introduction of graduation, which was responsible for the immensely increased produce of the tax, had made it extremely difficult to estimate what the increase would be in any given year. The Chancellor of the Exchequer stated that the growth of wealth would have increased the produce of the old probate duty by £600,000; but, as Sir William Harcourt remarked, this would leave £4,400,000 as due to the reform for which he was responsible. Even less excuse could be given for the under-estimate of the income-tax, which had occurred mainly owing to the substitution in the three years' average of a good for a bad year.

But if the revenue had largely exceeded the Exchequer issues of the year, the expenditure, as Sir Michael remarked, was "not quite so agreeable a theme." Large supplementary estimates had as usual been found necessary: Army £1,290,000, civil services £921,000 (largely for Colonial purposes), and post office and telegraph services £141,000. But labour troubles in the engineering trade had caused a saving of about £2,000,000 on contract shipbuilding, and the Exchequer issues to the Admiralty had fallen below the total grants by £1,488,000. The total expenditure of the year had on balance exceeded the budget estimate by £395,000, and reached £102,936,000. This deducted from the revenue receipts left a realized surplus of £3,678,000. Again, this surplus was employed, to the extent of £2,550,000, on an object which would otherwise have necessitated fresh borrowing, namely, for the purpose of the

Public Buildings Act of this session. This sum was to be placed to a separate account and to bear interest.[1]

The total reduction of the debt in the year had been £6,605,000, "satisfactory in view of the very large expenditure for naval and military purposes." But while the National Debt had been reduced during the last ten years by £66,250,000, the local authorities of the United Kingdom had increased their debt by £75,250,000, a circumstance which led the Chancellor of the Exchequer to emphasize the importance of persevering, "as far as we can reasonably persevere," in the reduction of the former. This judicious observation was not to prevent its author from himself reducing the provision for repayment of debt in the following year; and it is impossible to avoid the reflection that this country would have been in a far more satisfactory position if greater efforts had been made to wipe out the dead weight of the National Debt during the years when the national wealth was growing at so prodigious a rate, as it did during the last half of the nineteenth century. The comparative neglect of this primary duty on the part of Mr. Gladstone and his successors is, perhaps, the sole really valid criticism to be made on their fiscal policy.

For the coming year the expenditure, including the local taxation payments estimated at £9,178,000, was put at £116,007,000, an increase of £12,764,000

[1] The Exchequer balance on 31st March, 1898, was £10,918,000, consisting of £1,848,382, the unappropriated part of the surplus revenue of 1895-6, which was made applicable to the expenditure under the Naval Works Act, 1896, £1,723,216, the unappropriated part of the surplus revenue 1896-7 applied to the expenditure under the Military Works Act, 1897, and £3,678,010, the surplus for 1897-8, £2,550,000 of which was applied as above stated.

over the figures of Sir William Harcourt's last budget three years before. This increase formed the text of some further remarks on economy. Sir Michael Hicks-Beach, indeed, disclaimed the idea of preaching another sermon on that subject, but his remarks, and still more, perhaps, the pæans sung by Sir William Harcourt on the prosperity of the country and his enthusiastic approval of his successor's financial measures, drew from that staunch protectionist, the Member for Thanet (Mr. James Lowther), some criticism which had in it a considerable element of truth. "Does it seem," he asked, "to the present Chancellor of the Exchequer, or to his predecessors, that the mode in which a large amount of the main portion of our revenue is raised is accountable for the disappearance of economy from this House? The Right Hon. gentleman must realize that when the person who calls the tune no longer contributes to any appreciable extent to the payment of the piper the music is apt to be odd." Sir Michael Hicks-Beach, however, was in an optimistic mood and scarcely appeared to deprecate the increase to which he drew attention, but his analysis of the heads under which expenditure had grown and been met (without, as he observed, any increase of taxation since Sir W. Harcourt's reform of the death duties) was of some interest. Local taxation, including the amounts granted under the Agricultural Rates Act and the Irish Act (C. 37) of this session, accounted for £2,280,000; the post office for £1,500,000; education for £1,773,000; other civil services, mainly for administering, protecting, and developing African Colonies, £722,000; and the Navy and Army for

£6,314,000—more than half the total. The Navy estimates alone had grown by £5,077,000. He entered on an elaborate but not unconvincing defence of the increasing cost of the defensive services, and of the fact that our expenditure in the whole Empire was largely in excess of that of either France, Germany, or Russia. "For every thousand square miles of Empire," however, "we spend in defence £5,664, France spends £9,523, Germany £28,654, and Russia £4,454. For every thousand inhabitants of the Empire we spend £174, France £399, Germany £560, and Russia £298." And "with our responsibilities so also increases our power to bear them. . . . I own that I am sanguine of the future."

In estimating the revenue for the year he accordingly discarded the extreme caution of his last two budgets, and allowed for increases over the Exchequer receipts of 1897-8, on customs £402,000, excise £650,000, income-tax £550,000, and post office £560,000. Balancing his anticipated revenue £108,615,000 against expenditure £106,829,000, the Chancellor of the Exchequer found himself with a surplus of £1,786,000, enough to allow for a reasonable reduction of taxation. The choice as usual was difficult, but it was wisely made. He established in the first place, by an extension of the abatements up to £700 per annum, the graduation of the income-tax upon the smaller middle class incomes which has remained in force up to the present day, though the Liberal applause with which this extension of the principle was received led him to minimize its importance, and to describe it as a "very modest proposal" merely designed to "make the abatements bear

some fairer proportion to one another than they do at present," and " deserving neither the hostility of the Right Hon. Member for Thanet, on the one hand, nor the mistaken eulogies of Hon. Members opposite, on the other."

The effect, as he put it, was that " with an eight-penny tax "—

Income just under	£400	would	pay	-	-	4·8d.	
,,	,,	£500	,,	,,	-	-	5·6d.
,,	,,	£600	,,	,,	-	-	6·4d.
,,	,,	£700	,,	,,	-	-	7·2d.

This was to cost £100,000, and further small changes in the legacy and succession duties (subsequently withdrawn[1] mainly owing to the decision of the Court of Appeal in the " Beech " case which would cause liability for repayments) and in the land tax would cost £285,000. From the revenue point of view, the most important change was the reduction of the duty on unmanufactured tobacco by 6d. in the lb., from 3s. 2d. (at which it had stood for fifty-six years with the exception of one attempt to raise it by 4d. which had practically failed) to 2s. 8d. per lb. This was to be accompanied by a reduction of the moisture limit from 35 per cent. to 30 per cent. and the relief was estimated to cost £1,120,000. The reason for this reduction was overwhelmingly strong, for the tax was believed to increase the prime cost of the unmanufactured article by 500 per cent., and the

[1] It had been proposed (1) to grant to collaterals who had paid estate duty the same relief as was enjoyed by lineals, and (2) in the case of devolution from husband to wife, or *vice versa*, of successive life interests in property settled on the marriage, to postpone payment of the duty until the death of the survivor.

consumption of tobacco per head, though increasing, was considerably lower than in Austria, Germany, or Belgium. There was, therefore, every reason to believe that a reduction of the price of tobacco would largely stimulate consumption, and that the loss of revenue would be quickly made up.[1] There was some difference of opinion as to whether the " use of smoking tobacco was more or less injurious than the swilling of tea," to quote Mr. Bowles' expression; and some members urged in Committee that the reduction of the tea duty would have given more relief to the poorer consumer than the proposal in the budget. It was argued that the reduction would never reach the consumers by way of a reduction in the price of the manufactured article. Owing to the smaller percentage of water allowed the pound of tobacco would contain 5 per cent. more tobacco, and the manufacturer would not be able to allow of a reduction of price except in the case of the higher grades which contained less moisture and in which, therefore, some room for a reduction in price existed. Sir Michael Hicks-Beach, indeed, believed that any reduction of duty must eventually in some form benefit the consumer, but he admitted that it would be less for the cheaper sorts, while denying that the working classes consumed only cheaper tobaccos. However this may have been the result proved disappointing, possibly because the time during which the lowered duty remained in force was too short, but more probably

[1] It should be noted that the opposite policy was adopted in the budget of 1909 with the most satisfactory fiscal results. The consumption of tobacco has naturally increased but slowly. (See Table IV. in Part III.)

because the reduction of duty was not sufficiently drastic to produce a serious effect on prices; and an experiment which had everything to recommend it has never since been repeated. One effect, however, the reduction in this duty did produce, which was to stimulate the manufacture of British cigars. For the duty on foreign cigars was retained at its former level, not with an avowedly protectionist object in view, but because it was assumed that home-made cigars did not really compete with the foreign article.[1]

Sir Michael Hicks-Beach, in answer to various members, stated reasons for preferring to deal with the tobacco duty to lowering that on tea. Both were articles of great consumption, very useful and valuable as stimulants for all classes of the population, especially the poorest among them. But a reduction of the price on tea would have cost £1,700,000 instead of £1,100,000; the tobacco industry employed many more hands; and a greater number of households, if not of individuals, would gain by a reduction in

[1] In the preceding session Sir Michael Hicks-Beach, arguing against a motion to reduce the duty on unmanufactured tobacco (June 29, 1897), clearly stated the free trade argument against such a course. "In 1863," he said, "the relation of the duty between manufactured and unmanufactured tobacco was fixed by Mr. Gladstone, and what was taken into consideration was this, that the duty should be so fixed as to be fair both to the foreigner and the home manufacturer of tobacco. If we were to reduce the duty on unmanufactured tobacco by 2s. 2d. a lb., leaving the duty on manufactured tobacco alone, the result would be to enable the manufacturer of cigars in this country to sell his cigars at a price which would absolutely deprive the consumer in this country of the advantage of any foreign competition in the manufactured tobacco." Since 1863, he added, the changes in the importation of unmanufactured tobacco, viz. its importation without the stalks, which were a waste material in the manufacture, had placed the home manufacturer in a position of greater advantage.

the price of tobacco than in that of tea. The reduction of the tea duty was advocated in the hope that it would lead to the abolition of the duty altogether, a financial proposal for which Sir Michael would not be responsible. He did not desire to lessen the number of articles at present in the customs tariff. Incidentally he threw cold water on the idea that a reduction of the tea duty might be used to favour the tea growing Colonies or dependencies of the Empire. "Our primary concern ought to be for our own people."

The real interest of the budget was exhausted by the proposals as to the income-tax and the tobacco duty and the discussions thereon; and the only other points worthy of notice were the queries by Sir William Harcourt, whether the Chancellor of the Exchequer could have done better for all classes of the community with the £13,000,000 bestowed out of Imperial revenue upon subsidies to local taxation, and whether the advantages which had been derived by the ratepayer from this great sum were equal to the advantages which he would have derived from a general reduction of taxation to that amount. The question was, perhaps, one of the last echoes of the older financial wisdom which, as years went on, were to become more and more discredited and neglected. In the same connection, though not in the same range of ideas, was Sir Henry Fowler's forcible protest against the principle of intercepting money on its way to the Exchequer, and his plea for a clear and definite understanding of what the true position of the accounts was. "The public generally and the taxpayer ought to know what they pay for local taxation as

well as for the Army and Navy," and a "correct and business-like statement should be issued of the gross amount paid into the customs and excise, the gross amount paid for the death duties, and the gross amount paid to the local taxation account."

1899-1900.

SIR MICHAEL HICKS-BEACH'S FOURTH BUDGET.

April 13, 1899.

THE swollen surpluses of the last three years (of Exchequer receipts over estimated revenue—£5,812,000, £3,470,000 and £3,570,000) had not, as Sir Michael Hicks-Beach remarked, been "altogether creditable to the financial foresight" of himself or his predecessor; and he had accordingly decided to frame his estimates for the year ending in March, 1899, in a more hopeful spirit than he had previously done. The events of the year 1898 which included the war between Spain and America, the battle of Omdurman, the Fashoda crisis and the acquisition of Wei-hai-wei, seemed calculated to belie these hopes, and "all the pundits had prophesied a deficit." But there had been no retrogression in the condition of the people, and it was with some justifiable pride that the Chancellor of the Exchequer was able to announce that, though both the revenue and the expenditure had exceeded his estimates (both of these having proved inaccurate), the balance was on the right side, and that no more had been extracted from the pockets of the taxpayers than had been required for the

necessities of the country in the year. The Exchequer receipts had been £108,336,000, and the issues £108,150,000, giving a realized surplus of £186,000.

The customs had fallen rather below the estimate, tobacco especially having proved disappointing and realized £200,000 less than had been anticipated. This was accounted for by the disturbance in the trade which had prevented the reduction reaching the consumer, and by the short supply and high price of the raw article. It was contended on the other side that no one had benefited by the reduction except the manufacturer and the retailer, but Sir Michael remained of opinion that the current year would realize his figure, and resisted attempts which were made in the course of the discussion to induce him to reimpose the extra sixpence. The death duties and income-tax, on the other hand, in spite of optimistic estimates, had rather largely exceeded anticipations.

As regarded expenditure, there had been heavy supplementary estimates, as now usual,[1] £1,986,000 in amount, of which £885,000 was for the Army and £350,000 for the Navy besides £649,000 for civil services, mainly for Colonial purposes; but savings of £665,000 spread over almost every head of the estimates were to be set against them, so that the net expenditure amounted to £108,150,000.

[1] "I do not think any Government has ever exceeded in the form of supplementary estimates the expenditure to anything like the degree which has been practised in this Parliament. It is a very dangerous and a very evil practice. It deprives the House of that regular control it ought to have over expenditure, it confuses the financial balance upon which Parliament is called upon to determine at the time the budget is passed" (Sir W. Harcourt, *Parl. Debates*, lxx. 1899, p. 1150).

The estimated expenditure to be set against the Exchequer revenue of the coming year was £112,927,000, or an increase of £6,098,000 over the Budget estimate of the previous year. This, added to a similar increase of £5,000,000 in the previous year, made a total increase in estimated expenditure (including the local taxation) of £19,076,000 in four years, a rate of increase which could not long be met by a "mere automatic" increase in existing taxation, "nor even by increases of existing taxes."

In the course of some of the admirable remarks with which Sir Michael Hicks-Beach was in the habit of regaling the House, he said he could hold out no expectation that this estimated expenditure "was a mere temporary matter." "I daresay I am old-fashioned in my ideas, but I look with alarm on the tendency of the present day, quite irrespective of political opinion,—a tendency which is perhaps more rife on this side of the House than on that—to look to the Exchequer and Central Government for superintendence, for assistance, for inspection, and for control in all kinds of departments of life, in all kinds of relations between individuals, in which, in the old days, the Government of the country was never deemed capable of acting at all."

Side by side with this tendency, and even more marked during Sir Michael Hicks-Beach's period of office, was the lavish expenditure on armaments to which the swollen budgets of these days were mainly due. "We have," he said, "at a cost of almost untold millions provided a Navy so admirable in its strength and its efficiency, so far greater in these respects than any that can challenge comparison with

it, that there is no doubt, I believe, in the minds of the great majority of the people that the obvious strength of that Navy has been a main factor during the past year in saving us from a great war." When, it may be added, after a series of alarms which had threatened our relations in turn with each of the Great Powers, peace was at last broken by the Boer war; the command of the sea, maintained by Mr. Goschen's vigorous, if expensive, administration of the Admiralty was again the main factor which warded off foreign intervention, and therefore enabled the war to be brought at last to a successful conclusion. But whatever the justification in either case, it was on these two lines, that of naval and military expenditure on the one hand and that connected with social reform on the other, that, first with one political party and then with the other, the astounding development of British finance was to proceed during the remainder of our period. Sir Michael Hicks-Beach justly took credit for the fact that British naval and military expenditure was, unlike that of our competitors, met out of the annual revenue of the country; and that even such permanent works as harbours, dockyards and barracks were provided by loans for short periods and not by permanent additions to the debt. But it was at least infelicitous that, on the eve of what, from a financial point of view, was to prove incomparably the most serious war in which England had been engaged for a hundred years, he should have gone on to express the hope he entertained that the approaching Peace Conference might be able to devise some means for checking the "terrible com-

petition in armaments, at this moment when, I believe, a desire for peace is more prevalent throughout the world than it has been for some time past."

Nor was the moment happily chosen for a Chancellor of the Exchequer who had more than once solemnly asserted his opinion of the value of the sinking fund as a war reserve for a proposal to reduce the charge for the liquidation of the National Debt, a proposal which he had contemplated in the previous year but which now coincided with the necessity of providing, for the first time, for an anticipated deficit. The measure which he carried on this occasion had indeed but little practical importance, for before the close of the year he found himself faced with a situation calling for the total suspension of the sinking fund, and, on the cessation of hostilities, for as large a provision as the national finances would allow to wipe off the new liabilities which had been incurred. All the more was it to be regretted that Sir Michael Hicks-Beach should unnecessarily have placed himself in the position of having to meet a charge of inconsistency, and repeat the stock arguments for a raid on the sinking fund—the disproportion of the fixed debt charge to the diminishing liabilities, the injustice which was inflicted on the tax payer of the day by maintaining that charge at a high figure, and the temptation which would thereby be put in the way of future finance ministers to make more serious inroads on the sinking fund than the actual modest proposals.

It cannot, however, be disputed that the special considerations urged by the Chancellor of the Exchequer were strong enough to have justified his action, if the good fortune which had hitherto attended

him had not failed him at this critical point of his career. It was true, as he said, that if the country was richer it also had far greater burdens to bear. "When," he said, "in 1875 Sir Stafford Northcote set up the fixed debt charge of 28 millions, he had to provide the sum of £10,785,000 for the Navy; I have to provide £26,595,000; he had to provide £14,678,000 for the Army; I have to provide £20,617,000. He had to provide £12,656,000 for civil service estimates; I have to provide £22,180,000"; and he himself had shewn in his budget speech of three years ago how the increase in our expenditure had been infinitely greater than the natural normal increase in our revenue. It was less doubtfully true that the taxpayer of the day had a claim to benefit by the reduction of the interest on the debt effected by Mr. Goschen in 1888, a reduction which was to reach its further and final stage in 1903; and, strongest of all, there appeared, with Consols at 110, to be real substance in the contention that the proportion of Consols ("practically the only debt which we can now redeem") in the hands of the public, as distinguished from that held by Government departments, had been narrowed to so dangerous a point (he put the amount at £358,000,000, of which 200 millions were held by the banks and other financial houses for reserve purposes) that the Government, by the purchases it was obliged to make in that market, raised the price of what it desired to buy against itself. Taking into account the effect on the Consols market of the greatly increased outlay on account of the savings banks, there was the fear that the price of the stock might be driven to such a height

as to be a real bar to the purchase of Consols for sinking fund purposes. Without going so far as to agree with those who thought it was better to let the millions which went to the redemption of the debt "fructify in the pockets of the people"—he wished, on the contrary, to maintain the sinking fund at a substantial amount—he thought there was waste in redeeming Consols at a premium which would in twenty-four years be redeemable at par; and stated that during the four years he had been in office it had cost £20,569,000 to redeem £18,641,000 of Consols. This consideration had no doubt influenced him in his policy of diverting the old sinking fund to purposes for which fresh borrowing would otherwise have been required.

The proposals now put forward were shortly as follows. The manner in which the debt was being principally reduced was through the action of terminable annuities; in March, 1902, a big Savings Bank Annuity of £2,200,000 was to come to an end, and this, with two other annuities and the reduction of the interest on Consols from $2\frac{3}{4}$ to $2\frac{1}{2}$ per cent. in 1903 would cause, between the spring of 1902 and 1904, £7,000,000 a year to fall into the new sinking fund. He thought it impossible, said the Chancellor of the Exchequer, "that Parliament can allow such enormous windfalls to fall into the new sinking fund within the year." Parliament would be irresistibly tempted to devote a large portion to the remission of taxation. He therefore decided to prolong the Savings Bank Annuity to 1911, substituting a charge of £591,000 up to that date for one of £2,200,000 to March 1902, and to appropriate the amount thus saved to the

service of new terminable annuities running to the year 1922-3, in which year the Government had the right to redeem Consols which would presumably be at par.

Apart from some controversy as to the bearing of the precedents quoted by Sir Michael Hicks-Beach (those of Mr. Gladstone in 1860 and 1881 and Mr. Childers in 1883) no serious objection was raised to this part of the proposal, which would not help him as to revenue. But it was otherwise when he proceeded to discuss the question whether the amount thus devoted to the repayment of debt, rather more than £7,500,000 the largest actual provision ever made for sinking fund purposes, did not require revision; and his conclusion that the fixed debt charge should, in the interests of the permanence of the sinking fund itself (as he put it), be reduced from £25,000,000 to which it had been reduced by Mr. Goschen to £23,000,000 thus still leaving for a reduction of the debt £5,816,000 in the current year, was hotly disputed, not only by the opponents of the Government, but also by some of its political adherents.

If these proposals which reduced the liabilities to be met by £2,000,000 were accepted, the expenditure for which it was necessary to provide would stand at £110,927,000. On the existing basis of taxation an estimate, which on most heads seemed generous but which turned out to be greatly below the mark, gave a total revenue of £110,287,000, leaving a sum of £640,000 as the estimated deficit to be provided for by additional taxation.

New stamp duties (see Table) were accordingly imposed to bring in £450,000, and an additional

£420,000 was to be produced by a revision of the scale of duties upon wine. By these means the deficit was turned into an estimated surplus of £230,000.

The discussion on the wine duties turned chiefly on their effect on Colonial wines, mainly of low alcoholic strength, which Sir Howard Vincent urged should be exempted from the increased duties. The reduction was criticized in several quarters (Mr. Courtney, Sir Howard Vincent and Sir Charles Dilke) as likely to be regarded as an act of hostility towards the wine-growing countries from which we received "most favoured nation" treatment, and towards the Australian wine-growing Colonies which would be seriously injured by the strength test proposed. Others protested against them on the ground that the change was contrary to the long-established policy of encouraging the consumption of light wines; and in the result the additional duty on wine not exceeding 30 per cent. of proof spirit was reduced from 6d. to 3d., thus meeting both points to a certain extent.

But it was on the question of the reduction of the provision for the repayment of debt that the main battle took place. Sir William Harcourt, who had resigned the leadership of the opposition and who made his first appearance for the session on the night of the budget speech, delivered the first of a series of slashing attacks on the financial proposals outlined above, and insisted that to strike off practically one-third of the provision for the redemption of the debt at a time of the greatest prosperity, from a fiscal point of view, that the country had ever known was a "fatal blow against that system which we have stood by through good report and bad report." In

the discussion which followed, the arguments in support of that measure were demolished one by one in a series of powerful speeches from Sir Henry Fowler, Mr. Courtney, Mr. Bowles, Mr. Beckett and Mr. Fletcher Moulton.

Most of these speakers concurred in disputing the assertion that the great burden of taxation now imposed on the people entitled the taxpayers to relief. Rather did they feel, with Mr. Courtney, that the coming generation might have such serious difficulties to contend with that there was every reason, while we were still flourishing, to relieve them as far as possible of an impediment which might "keep them back in the race for existence and the struggle for life." It was really a sufficient answer to point out that the wealth of the country had grown out of all proportion to the amount set aside for the redemption of debt. "The revenue," remarked Sir Henry Fowler, "is the largest ever known" (£121,000,000 had been the aggregate expenditure provided for in the last year) "and now we are to be told that it is too much to pay £7,000,000 towards the reduction of the debt, when in 1883, at which time the revenue was only £77,000,000, we paid the same amount without grumbling." "We were living," said Captain Pretyman, "in a time of precarious peace, and therefore exposed to something like the expenses of war." But, replied Mr. Courtney, "however precarious peace was, until the peace was absolutely broken there was no reason for arresting or diminishing the reduction of the debt. Until war was declared, let them go on reducing the debt, make themselves strong and in that way prepare for war."

It is not to be supposed that the Chancellor of the Exchequer did not perfectly agree with this sentiment, or that if he had foreseen an outbreak of war he would not have been the first to deprecate a depletion of the war chest by 60 millions. The real fact was that he did not see his way to impose fresh taxation.

There was, indeed, some truth in Mr. Fletcher Moulton's taunt that we "have a Government which dare not tax the poor and will not tax the rich," but there was noticeable abstention on the part of the opposition from suggesting methods of raising more revenue. There were, however, some interesting *obiter dicta* in the course of the debates on the question of direct *versus* indirect taxation. Mr. James Lowther (Thanet) and other speakers commented quite justly on the crudeness of the usual official calculations of the percentage borne by the two forms of taxation to each other, which "did not go far to establish the truth about incidence of the burden on the different classes of taxpayers." Mr. Courtney in his very important speech on the second reading equally condemned this calculation, and insisted on the need for a "careful and accurate estimate of what was paid by normal classes, in order to arrive at the exact proportion of taxation paid by those with £100, £500, £1,000 or £10,000 a year." He thought, though he had no recent figures, that the adjustment was now pretty fair, but he deprecated any appeal in a House of income-tax payers to resist taxation which would fall upon them as very injudicious in a Chancellor of the Exchequer. "A more dangerous feud," said Sir William Harcourt, "than an issue which might be raised between the two sides of the House—between

the enemies of direct taxes and the opponents of indirect taxation—it would be impossible to raise." There was, in short, no real information and, therefore, no standard for imposing taxation as between social classes.

There was, on the other hand, a general feeling that the financial *régime* had been needlessly extravagant. "The Chancellor of the Exchequer," said Sir William Harcourt, "up to this time has had a pretty easy life. He was the heir of a highly solvent estate. He had reduced it to a declaration of partial insolvency." Sir William Harcourt's patience with his successor's budgets was apparently exhausted on this occasion, and his language throughout was that of indignant and outspoken condemnation. Sir Michael Hicks-Beach allowed himself a retort. "I always notice that the pleasure which the Right Honourable gentleman, the Member for West Monmouthshire, naturally experiences when he looks back on his handiwork of 1894 is quite eclipsed by his evident disgust at the fact that the proceeds of that Act are being expended by his political adversaries." It may be suggested that the too abundant revenue furnished by that Act was one of the main predisposing causes of the lavish expenditure of the last few years.

On the whole, the argument that the taxpayer could not fairly be asked to meet the growing expenditure and also maintain the sinking fund was shewn to be somewhat hollow and insincere. Not less so was the suggestion that the future of the sinking fund would be safeguarded by the present reduction. It was indeed absurd to assert that the proposed reduction would necessarily tend to further reduction

till the sinking fund was altogether destroyed, and the friends of the Government were quite justified in pointing to the fact that no inroad had been made in it during the twelve years which had passed since Mr. Goschen's operations. But to say that the proposed reduction was necessary to protect it was equally absurd, and gave rise to much ribald criticism. "The first principle of the gospel of the sinking fund, it seems," said Sir William Harcourt, "is that the more you rob it the safer it becomes." "A strange thing," said Mr. Beckett, "to protect the financial virtue of your successors by sacrificing your own." Mr. Gibson Bowles was even more caustic than usual in his *rôle* of the candid friend. In a strain of delightful irony he pictured the Chancellor of the Exchequer saying to himself, "there may be a Chancellor of the Exchequer who may not be characterized by my austere virtue. He may come from West Monmouth or Wolverhampton or possibly from Scotland. He may be profligate, he is certain to be frail. He may take this large sum and with it reduce the duty of 35 per cent. now imposed on tea, or that of 200 per cent. on spirits, or of 247 per cent. on tobacco. He may squander it in giving doles among the agricultural classes, or in setting up a system of local government calculated to advance the cause of Home Rule in Ireland. I will not expose my future friend to this temptation; he shall not be under this sore trial. I will remove the temptation by removing the money; and the Chancellor of the Exchequer of 1902, when he comes into being, will remember me with gratitude and affection; and he will thank the fates which have raised me up to preserve him from

the most deadly and dangerous situation in which any financier can find himself—that of having too much revenue and too little debt."

The most serious defence put forward by the Government speakers was that derived from the existing premium on Consols which made repayment of debt wasteful, and the narrowness of the Consol market, which was also affected by the operations of the Commissioners of the National Debt with their enormous purchases for the investment of the deposits in the savings banks. "If you go on," said Sir Michael, "till you have to invest 12 or 15 millions a year in Consols instead of 6 or 7 or 8 millions, long before you get to that point Consols would be practically unpurchasable." To the practical suggestion made by Sir Henry Fowler and others that the area of investments for savings bank money should be enlarged the Chancellor of the Exchequer, Sir William Harcourt and Mr. Goschen all strongly objected, on the ground, surely somewhat open to question, that other securities such as Indian stock or municipal corporation stock might be the safest stock in the world, but in a time of crisis would not be available. "Consols," said Mr. Goschen, "are the one stock which is always saleable in all circumstances." Mr. Fletcher Moulton and Mr. Courtney very ingeniously contested the view that for the Government to purchase Consols at a premium was a dead loss, and other members pointed out more convincingly that this argument proved too much, and would, if pushed to its logical conclusion, preclude the reduction of the debt altogether as long as Consols stood above par, and that every pound by which

Consols rose was an additional reason for not paying them off. But the era of high-priced gilt-edged securities, so strangely assumed to be permanent, was drawing to its close; and the real answer to these confident assumptions as to the future of Consols was supplied by the course of events. In a very few months Consols had fallen below par, and this continued depreciation swept away the whole basis of an argument which had been plausible and even weighty in the early months of 1899.

The foresight of the Chancellor of the Exchequer, which he himself had admitted to have been at fault on previous occasions, was certainly not conspicuously vindicated this year. Consols began to take a quite natural downward course, and to crown all the revenue again turned out to have been so enormously underestimated that, if it had not been for the outbreak of the South African war (another unlooked for eventuality), he would have laid himself open to the reproach of having extracted 5 millions more than was required from the pockets of the taxpayer, and of having needlessly violated the canons of financial orthodoxy. As it was, Parliament had to be called together in a new session on the 17th of October of this year and the Chancellor of the Exchequer was obliged to make provision, in Committee of Ways and Means on the 23rd, for an expenditure of 10 millions for the army in South Africa, voted a few days before on estimates which he stated to have been "much more carefully and accurately framed than on some former occasions."

He already at this date anticipated a surplus of 3 millions, leaving 7 millions to be provided by

an issue of Treasury Bills (authorized up to 8 millions) which would be placed on the market as opportunity served. He looked upon this borrowing as a "purely temporary matter," and protested against the idea of making a permanent addition to the debt on account of the war which he saw no reason whatever to "anticipate might not be brought to a successful termination well within the period to which the estimates referred." The Transvaal, too, "wealthy in its possession of gold," might be required to contribute a reasonable sum towards the expenses of the war. For these reasons, and also because he was within five months of the close of the financial year when, if necessary, fresh provision could be made, he sensibly declined to disturb trade by imposing indirect taxation; or to resort at once, as had been done in 1867 (Abyssinian War) and in 1884 (Bechuanaland and the Soudan), to an increase of the income-tax which stood at 8d. instead of, as at these earlier dates, at 5d. in the £.

Such was the opening scene of a financial drama which was soon to throw into the shade even the startling advances of the previous ten years, and greatly to enlarge men's ideas as to the possible limits of "tolerable taxation."

SIR MICHAEL HICKS-BEACH'S FIFTH BUDGET, 1900-1.

March 5, 1900.

With the budget for the year 1900 we enter on a period during which the chief interest in the national finances centres round the great expenditure caused

by the Boer war. The first point raised by the necessity of this expenditure was whether it should be met out of money raised by loans or by money raised by taxation, or partly by the one and partly by the other of these methods; and the consideration of this question figured largely in Sir Michael Hicks-Beach's financial statement made on the 5th March, 1900. The fact that the actual financial year had not fully expired made all estimates unreliable; expenditure was difficult to forecast; the revenue results for eleven months only of the year 1899-1900 were available; and it happened, therefore, that before the close of the year 1900-1901 no less than three further financial statements were submitted by the Government. The first, based on the position to the end of February, 1900, gave provisional estimates for the coming year and was accompanied by an explanation of the provisions of the year's Finance Bill; the second, which was submitted on the 6th April, the day of the third reading in the Commons of the 1900 Finance Bill, gave the actual results of the past year, together with definite estimates for the coming year (see budget figures, p. 378); and the third and fourth, made respectively in July and December (before and after the general election) gave revised estimates of expenditure which were rendered necessary by the continuance of the war. The strange optimism with which the war began and the gradual realisation of its serious character is accurately reflected in these successive revisions of the financial arrangements of the year.

Even before the first statement was made, it was no longer doubtful that the war would make some

very serious calls upon the national purse, for in addition to the sum of £10,000,000 voted in the previous October, a further expenditure of £13,000,000 had been consented to by the House in February. Although the actual results would not be available for another month, it was therefore already evident that a considerable deficit would have to be faced at the end of the expiring year; and in these circumstances the Government considered it to be of the highest importance to show at the earliest moment their determination to meet all their financial liabilities with promptitude, and thus to afford some proof both to the enemy and to foreign critics of our earnestness in the work in which we were engaged.

This, however, did not form the sole reason for the unusually early, although not unprecedented, date at which the budget was introduced. On more than one occasion in the past when increases of duty had been expected, the customs and excise estimates had been considerably disturbed by clearances of dutiable articles altogether in excess of the natural demands of the market. Goods were cleared, not because they were genuinely needed by the retail trade to meet the demands of customers but in order that an expected rise in duty might be evaded, and with the intention on the part of traders of either selling them at a price enhanced by that rise (which they would not have paid) or of underselling competitors who had paid the increased duty. In either case the increase of duty was *pro tanto* converted to the benefit of the forestaller at the expense of the Exchequer. It was therefore also with a view to thwarting the efforts of these forestallers that, on

two days' notice only, the budget was introduced on the 5th of March 1900. In March 1899 anticipatory payments had been made on tea and tobacco of £710,000. This had been carried over to the next year. But this experiment was not repeated in 1900 when such good use was made by the public of the two days' notice given (Saturday the 3rd and Monday the 5th of March), that, when a month later the final estimates for the ensuing year were given, a substantial decrease in the customs and excise provisional estimates for 1900-1 became imperative owing to the large payments preliminary to heavy withdrawals from bonded warehouses which had been made, even during this very limited period, in anticipation of increased duties. The amount thus received was £1,730,000. In order to discourage as far as possible the recurrence of any such event, a clause was introduced into the Finance Bill (afterwards Section 9 of the Finance Act, 1900), enacting that duty should be paid on goods or commodities deposited in a customs or excise warehouse at the rate chargeable on the date of the actual removal of those goods or commodities from the warehouse, and that if before that date any duty had been paid thereon the difference (if any) should be adjusted by repayment or surcharge.

Basing his calculations upon the actual figures shown by the returns up to the end of February, the Chancellor of the Exchequer looked to the expiring year to produce a revenue of about £116,000,000, which showed a deficit of nearly £18,000,000 compared with the gross Exchequer expenditure as then anticipated. Had it not been for the £23,000,000

already required for the war, there would on these figures actually have been a balance to the good of some £5,000,000, the one agreeable feature in the statement. The pace at which the revenue was still coming in bore remarkable testimony to the extraordinary industrial activity and commercial prosperity of the year 1899, of itself by far the most prosperous of a series of prosperous years. Wages had risen considerably, employment had been plentiful, labour disputes had been few and unimportant, and the result of all this was that the purchasing power of the labouring classes had been largely augmented and had very beneficially affected the receipts of the revenue. The actual results of the year will be given in connexion with the second balance sheet which was placed before the House in the month of April, but what has been said above will be sufficient to shew that up to this point the war had had no adverse effect upon the Exchequer receipts.

Turning to the amount required for the coming year, the provisional estimate placed before the Committee shewed that the very large sum of £154,000,000 was to be asked for, an increase of £43,000,000 on the estimates of 1899-1900 almost wholly attributable to the war. As to the estimated revenue to meet this expenditure, it was reckoned that about £117,000,000 would be paid into the Exchequer on the existing basis. This shewed a deficit of £37,000,000, and when to this the expiring year's deficit of £18,000,000 was added, together with a precautionary £5,000,000, the country was faced with the fact that even at this early period the additional sum to be provided amounted to not less than £60,000,000.

The question as to how this sum should be raised was at once attacked by Sir Michael Hicks-Beach. If he had chosen to adopt either of two extreme courses open to him, those raising the amount either wholly by taxation or wholly by loan, he would have found little difficulty in justifying himself by authority and precedent. Not only had economists like Mr. Hume and Mr. Mill preached the doctrine that it was not expedient to defray the extraordinary expenses of a war otherwise than by means of taxes levied in the year, but Mr. Gladstone in 1854, before the Crimean War had assumed very formidable dimensions, had hoped to avoid recourse to loans, and had dwelt on the expediency of meeting from year to year the expenditure which the war might entail, as he considered that such an effort made the community feel what they were about. Indeed, at that time, he held that by meeting expenses of war out of taxes instead of mortgages on posterity, he was defending all interests, but most of all the interests of the most permanent property in the country; for labour and capital might emigrate but land could not move, and therefore must be mortgaged. On the other hand, it is known that the other course—avoidance of all extra taxation—was deliberately adopted by no less a financial authority than Mr. Pitt for the first six years of the great war against France (1793-99), and there have been many advocates of this easy-going policy down to the present day.

Neither of these extreme views have, since Pitt's early days, commended themselves to practical statesmen. They have followed a *via media*—"You must," said Mr. Disraeli in 1854, "conduct your war, no

doubt, with some regard to scientific finance but also with some regard to the spirit of the age and the country." Sir Stafford Northcote, in his *Twenty Years of Financial Policy*, laid it down that " although the main brunt of war expenditure ought to be borne at once, some aid, at all events, may not unreasonably be expected from succeeding ages or at the least from succeeding years." Mr. Gladstone also was content at a later stage of the Crimean War to adopt the moderate course. " We propose," he said, " the principle of a divided method of provision. In so doing, we follow the rule which is commonly applicable to war expenditure."

It was from this latter point of view that the Government approached the question. The memorable dark days of the end of 1899 were already a thing of the past, and news had just been received of the relief of Ladysmith. Each day was bringing tidings of fresh successes, and the Government had some right to think that the war would not be a long one calling for permanent fiscal changes.

The Chancellor of the Exchequer therefore urged some immediate and substantial addition to taxation, and proposed to meet the temporary necessity by additions to existing taxation from largely productive sources, without having recourse to a number of small impositions. Nor would he alter the existing proportion between direct and indirect taxation. The Chancellor of Exchequer therefore turned in the first place to the income-tax which, he said, " has always been considered a tax that might properly be augmented on the occasion of a war, and that for the obvious reason that it can be dealt with either by

way of raising it when required for a war or by way of lowering it when the war is over, without any practical disturbance either of trade or commerce." The rate of the tax was immediately advanced from 8d. to 1s. in the £, and by this means about one-tenth of the £60,000,000 was obtained. Having suggested a small amendment in contract note stamps which, however, was afterwards abandoned, Sir Michael Hicks-Beach proceeded to impose an additional 1s. per barrel of 36 gallons on beer and an additional 6d. a gallon on spirits, these two changes being estimated to increase the revenue by £2,767,000. The extra spirit duty was to remain in force until the 1st August, 1901, with a view of preventing dealers from keeping back their clearances until after the introduction of the usual budget. The duties on tobacco and tea were also both increased, the additional yield from the former commodity being put at £1,100,000 and from the latter at £1,800,000. The total of this additional taxation amounted to £12,317,000, and by reducing the expenditure to the extent of £4,640,000 by the stoppage of repayments of capital wrapped up in terminable annuities belonging to the various government departments—*i.e.* by a suspension of the sinking fund—some £17,000,000 of the £60,000,000, not by any means on a bold or over-generous contribution, was provided for by taxation. Of the balance of £43,000,000, it was suggested that £8,000,000 should be met by renewing the Treasury Bills which had been issued under the authority of the House in the previous October, and as to the remaining £35,000,000 Parliament was asked to give general power for borrowing.

The proposals were generally accepted without any serious debate, and immediate steps were taken to put a separate war loan of £30,000,000 (not Consols) on the market. The prospectus of the loan, which was issued by the Bank of England as early as the 9th March, shewed that public subscriptions were invited for a $2\frac{3}{4}$ per cent. stock repayable at par in ten years' time. The price of issue was fixed at £98 10s. per cent., and this sum was payable by easy instalments spread over a period extending into November; but as the scrip carried two full quarters' dividend, payable in July and October, allottees of the stock really obtained a concession equivalent to a further rebate of 14s. per cent. on the price of issue. The success of the flotation was never for a moment in doubt, and when the list was closed the total amount of stock which had been applied for was found to have reached £340,000,000, and the number of applications 40,000. The stock immediately went to a premium of 2 per cent., and in certain quarters Sir Michael Hicks-Beach was somewhat severely criticized for not having fixed the price of issue at a higher figure. But on the second reading of the War Loan Bill, on the 13th March, he defended himself by shewing that it would have been a grave mistake to run the risk of not having the loan fully subscribed, or even of only having it just covered. Any such result would, he said, have been a national disaster. He explained at the same time that he had not resorted to terminable annuities, owing to the comparative unpopularity of this form of raising money. No provision was made as to how the loan should be redeemed, this question being advisedly

left over till the total liability could be estimated and in the hope that some substantial contribution would ultimately come from the Transvaal.

The second reading of the Finance Bill, which took place on the 19th March, was of considerable interest. The question of the narrow basis of taxation which, as we have seen, had so often been raised as a more or less academic issue since Mr. Goschen's time, at once became a burning one. The Member for Thanet returned to the charge with a good deal more acceptance than usual, the *Times* having on the day after the introduction of the budget attacked the Chancellor of Exchequer for having failed to produce a comprehensive reform of the whole fiscal system. Mr. Lowther advocated a sliding scale of corn duties; quoted Sir Michael Hicks-Beach's estimate of the previous year that 1s. would produce £2,450,000, and pointed out that 10s. would produce 24 millions. Sir Michael afterwards shewed that, what with preference, decreased consumption, and old age pensions which were held out as an additional inducement, even this sum would not greatly help the revenue. Mr. Lowther made a significant point when he urged his well-known views that the present narrow basis would be absolutely inadequate to meet the growing requirements of the present day, and that the system of Hume and Bright depended on a policy of low expenditure and restricted armaments. "This enormous increase of your expenditure may become a very serious question," said he. "Yes," retorted Sir William Harcourt, "indeed it may. It may drive you to tax commodities of every kind as they were taxed by Mr. Pitt in the great French war."

For the rest, Sir William knowing that he had an ally on this question in the Chancellor of the Exchequer, contented himself with repeating his opinion that it was one of the greatest of financial heresies that taxes should be levied upon the largest possible number of articles. "To-day," he said, "the fewest subjects possible are taxed. The history of that is that when you put taxes however small upon a commodity, you make it dearer, you make the manufacture of it more difficult, the trade in it less profitable, you make it less accessible to the population, and the people who consume that commodity save less money and add less to the wealth of the country. That is the whole history of it." The same speaker did not fail to comment on the largeness of the surplus which would have been realized but for the war and to mention how this might have been used; and he made a further point by showing how Mr. Gibson Bowles' prognostications on the results obtainable from the death duties had been falsified. The $3\frac{1}{2}$ to 4 millions additional duty which the estate duty had been looked to to produce had actually been doubled since 1894, a result which, in Sir William's opinion, was due to "the undiscovered and incalculable wealth of the country." Sir Edgar Vincent made a noticeable maiden speech in defence of the traditional fiscal policy of the country. "High duties on a small number of articles impede commerce less, cost less to collect and are probably, though this is a matter of opinion, less liable to evasion and fraud than lower duties levied over a wider area." These duties were not now at danger point, and the proposal to tax a larger number of articles in peace time

in order to create a reserve, a framework for war taxation, appeared to him to be applying the principle of war organization to the peaceful administration of the revenue, and would hamper trade unnecessarily. Captain Pretyman added the obvious but sensible comment that "at the present time the elasticity of the revenue was shewn by the fact that by very small impositions we were able to increase our revenue by many millions."

The Chancellor of the Exchequer wound up the debate in a short speech in which he dealt in his characteristically sane and level-headed manner with the various questions raised. In reply to the charge of want of imagination in inventing any new system of taxation for the production of revenue, he made use of the argument that a moment of "temporary necessity" was not one in which to raise new fiscal questions; and he took as a compliment the observations which had been made suggesting that the budget was "humdrum" or that, as a leading journal had said, it might have been prepared by a schoolboy.

The further passage of the Bill through the House was not marked by any particular opposition except from the Irish benches, where it was argued that Ireland was already overtaxed, and was now being made to pay an undue proportion of the expenses of a war of which the majority of her representatives disapproved. The Government gave a special night for the discussion of these grievances, when the Chancellor of the Exchequer pointed out that the new taxation imposed a relatively smaller burden on Ireland than the old, and argued that Ireland was

distinctly more prosperous than at the time of the Financial Relations Commission. The proposal to exempt Ireland from a part of the new duties was impracticable as it would have involved the establishment of a separate Custom House, with consequent inconvenience and very serious damage to Irish trade.

One addition made to the Bill was, however, of interest. On the 29th of March Mr. Bartley moved the addition of a clause exempting from estate duty the property of persons killed in the war up to £5,000. The Chancellor of the Exchequer could not accept the clause as it stood, but agreed to have an alternative clause prepared, which was submitted and adopted on Report. The effect of the new clause was that on the recommendation of the Admiralty or the War Office, the Treasury should be permitted, in cases where total estate did not exceed £5,000, to remit so much of the death duties payable on the estates of officers or men whose death was incurred on active service as the circumstances might deem to justify; provided that in no case should the remission exceed the sum of £150, and that it should only apply to property going to the widow or children of the deceased. The new clause was expressly limited to take effect in the case of any person dying since the 11th October, 1899, the date of the commencement of the war.

The third reading of the Finance Bill on the 6th April was of more than usual importance because it gave the opportunity for the presentation of definite estimates for the coming year, those presented a month earlier having necessarily been provisional

only. The Exchequer receipts for the past year had amounted to £119,840,000, or an increase of £11,504,000 over the receipts of the previous year. The increase was to some extent due to the heavy withdrawals from bonded warehouses at the beginning of March, but, even allowing for this, the figures of the year were remarkable. "I do not suppose," said Sir Michael Hicks-Beach, "that so enormous an increase as that for one year over its predecessor ever happened before by the purely automatic effect of taxation." The most striking of the individual increases was that from the death duties, from which source £14,020,000 (Exchequer Receipts) had been obtained, as against the original estimate of £11,150,000. Adding the sum of £4,453,000 paid to Local Taxation Accounts, the actual amount found by the tax-payer under this head amounted to £18,473,000. Well might Sir William Harcourt smile at his critics of the year 1894 and speak of the "undiscovered and incalculable wealth of the country." As illustrative of the difficulties encountered in framing the estimate, the Chancellor of the Exchequer pointed out that, whereas, since 1894 he had received an average of £863,000 per annum from the estates of millionaires, in the past year he had received from this category of estate alone close on two millions in estate duty, the vast sum of £900,000 in death duties having come from the estate of one gentleman known to fiscal fame as "Chicago Smith," who lived on 15s. a day in a London club. That one person had contributed to the Exchequer "more than the cost of an ironclad."

The definite balance sheet as finally settled on the

6th April after increased taxation shewed an estimated revenue for the coming year of £127,520,000, as against an estimated expenditure of £150,061,000, thus leaving a deficit of £22,541,000; and the position of affairs, as left at the beginning of the year, can best be seen by a glance at the following figures:

Deficit on 1900-1901 estimated at	£22,541,000	Renewal of Treasury War Bills	£8,000,000
Realized deficit in respect of 1899-1900	13,883,000	War Loan £30,000,000 stock @ 98½	29,550,000
Margin -	1,126,000		
	£37,550,000		£37,550,000

Of the two supplementary estimates which, as stated above, were presented respectively in July and December, there is no need to do much more than give a *resumé* of the figures, for the discussions on these estimates were relatively unimportant. Sir William Harcourt, as leader of the opposition, said that the "House of Commons had voted, and they would always vote in his opinion, the money, whether by taxation or by borrowing, which is necessary to bring this war to the earliest finish," but he made a strong attack on these fragmentary budgets, on August 1st complaining that he could not make out how much had been spent so far, and how much out of revenue and how much by loan. The Chancellor of the Exchequer explained his figures, the effect of which was that out of the total cost to date (£69,323,000), £25,460,000 had come out of taxation and £43,863,000 from loans; the former figure, how-

ever, including last year's surplus and the suspended sinking fund. He expressed the opinion, "his decided belief," that the further borrowing power, £13,000,000, asked for at this date would suffice till the end of the war. Both on this occasion, however, and in December the criticisms of the opposition were directed quite as much to the war itself as to its financial aspect, and much curiosity was shewn as to the promised contribution from the newly annexed South African republics.

Neither of the two revised estimates shewed any alteration in the revenue, which stood at £127,520,000 as fixed in April. In each case further expenditure only was shewn, and in asking for powers to borrow the amounts required the Government made it clear that they had no intention of throwing a permanent burden on the country. "I have obtained power from Parliament," said the Chancellor of the Exchequer, "to borrow for the cost of the war. I have borrowed partly on Treasury Bills, partly on Exchequer Bonds for three years, partly on Exchequer Bonds for five years, and partly on the War Loan for ten years; and therefore I have made the falling in, so to speak, of these loans at such periods as would enable Parliament to have before it the condition of the Transvaal from time to time with a view to seeing what we could impose, as these loans fall in, upon that country."

The additional expenditure which the country was asked to sanction was estimated at £29,809,000; but of this, it should be mentioned, some 3½ millions were required for military operations rendered necessary by the Chinese crisis of 1900. This sum added to

the original estimated deficit of £22,541,000 raised it to £52,350,000. The additional borrowing powers which were conferred on the Government were first, in July, to an extent of £13,000,000, and second, after the election to an extent of a further £11,000,000, and by the end of December, 1900, the position was as follows :

Deficit of 1899-1900 - -	£13,882,000	
Estimated deficit of 1900-1901	52,350,000	
Aggregate deficit - - -	£66,232,000	

This deficit would be met as follows :

(*a*) By Treasury Bills Act, 1899 - -		£8,000,000
(*b*) By War Loan Act, 1900—		
(1) War Loan £30,000,000 @ 98½ -	£29,550,000	
(2) Treasury Bills - -	5,000,000	
		34,550,000
(*c*) By Supplemental War Loan Act, 1900—		
(1) Exchequer Bonds £10,000,000 @ 98 -	£9,800,000	
(2) Ditto £3,000,000 @, say, 98⅛ - - -	2,944,000	
		12,744,000
(*d*) By the exercise of further borrowing powers under Supplemental War Loan (No. 2) Act, 1900, within amount of £11,000,000 authorized -		10,938,000
		£66, 232,000

It may here be noted that, after the dissolution of Parliament, which took place in the autumn of 1900, the Unionists were again returned to power with a

majority almost identical with that which they had had at the previous election, 1895. Lord Salisbury remained Prime Minister and Sir Michael Hicks-Beach retained the office of Chancellor of the Exchequer, while Mr. Goschen retired from the Admiralty and the administration, and went to the House of Lords as Viscount Goschen.

SIR MICHAEL HICKS-BEACH'S SIXTH BUDGET, 1901-2.

April 18, 1901.

THE year 1901, the opening of which saw the death of Queen Victoria in the midst of the long-drawn anxieties of the South African War, was from the financial point of view one of deepening depression and disaster.

The position, in spite of the announcement during the election period of the previous autumn and later that the war was practically over, had not improved since the statement presented in December 1900; for besides the necessity of providing for the still continuing state of war, the growth of the normal public expenditure, which of recent years had shewn a tendency to advance at an ever-increasing rate, had now clearly reached a stage demanding the most serious attention. Moreover, the prospect which Sir Michael Hicks-Beach had always dangled before the House of Commons of securing a substantial contribution from the Transvaal towards the expense of the war was at last admitted to be far from encouraging, and he was forced to announce that such was the "ruined condition" to which that country had been reduced by the war that nothing could be expected

from it until a considerable period had elapsed after the restoration of peace.

In these untoward conditions Sir Michael Hicks-Beach rose on the 18th April to make his financial statement. Although at the moment of his speech the "tide of prosperity was at last slackening and some symptoms of a change" were already beginning to shew themselves, the actual figures of the realised revenue for the whole of the past year did not of themselves disclose any "signs of adversity," for the Exchequer receipts, at £130,385,000, were nearly 3 millions above the estimate. This excess, however, was due practically in its entirety to anticipatory clearances of dutiable articles, "an unmitigated nuisance to financial statisticians," which the legislation of the previous year had not succeeded in preventing. The presence of these forestalments on a large scale entirely upset the relations between the revenue of any one year and the consumption of dutiable articles within that year, so that no conclusions of a satisfactory nature could be arrived at as to the increase or decrease in the consuming power of the people. For this reason the Committee was not detained by any detailed comparison of the receipts under the various heads of customs and excise for the past and previous years, as only hypothetical conclusions could be drawn from such a comparison.

Speaking at greater length on the results of direct taxation, the Chancellor of the Exchequer had to report that the death duties had almost exactly realized his cautious estimate of £13,000,000, this sum being exclusive of about £4,000,000 paid direct to Local Taxation accounts. Stamps had proved un-

satisfactory, owing to the "practical absence of business" on the Stock Exchange. Spirits had realized the estimate owing to "anticipations"; but beer was £470,000 below it. Standard barrels consumed had decreased but liquid barrels had not, shewing that the gravity had been lowered or, less euphemistically, that the beer had been watered. But the yield of the income-tax which came out at £26,920,000, a sum more than one million in excess of the estimate, was remarkable, though easily accounted for by the prosperity of the years on the average in which it was assessed. It was not until 1889 that a penny of income-tax had produced £2,000,000 per annum of revenue, but in 1901, notwithstanding the abatements costing £1,440,000, which had been allowed, each penny of tax was producing more than £2,400,000 per annum, and during the same period of twelve years, the income assessed to the tax had increased by no less than £120,000,000.

The total Exchequer expenditure for the past year (budget and supplementary estimates) had amounted to £183,592,000,[1] of which one-third (£68,620,000) had been war expenditure, leaving a deficit of

[1] Including £9,739,000 for local taxation and £4,915,000 borrowed on terminable annuities for capital expenditure for naval and military works, the Uganda railway, telephones, etc. (the capital and interest of which were repaid year by year from the votes, and which were, therefore, outside the consolidated fund charges), the total provided by the State was £198,246,000. Mr. T. G. Bowles, later in the debate, adding to the Chancellor of the Exchequer's estimate of 187 million for 1901-2, the local taxation accounts and the amount of the appropriations-in-aid, brought the total to £205,000,000, and, adding local expenditure of at least £100,000,000, stated the total burden of taxes and rates at £300,000,000. In the same way the national indebtedness, Imperial and local loans, came to £1,000 millions (*Parl. Debates*, 1901, vol. xcii. p. 837).

£53,207,000, full provision for raising which sum had been made as explained in the account of the previous budget. But the expenditure for the coming year was put at an even higher figure, being estimated at what then appeared the colossal sum of £187,602,000, or £4,010,000 over the actual expenditure of the previous year. On the basis of the existing taxation the revenue was estimated at £132,255,000 (estate duty and income-tax being taken for special reasons at a high figure), and the deficit to be provided for accordingly amounted to £55,347,000.

It was doubtless owing to the unprecedented height which the annual expenditure had now reached that more than ordinary interest was taken in this budget; and, long before the statement was made, there was much speculation upon the new taxes which it was clearly seen would be necessary to meet the situation. Even if this deficit could have been looked upon as a war deficit only, the Chancellor of the Exchequer announced that he would none the less have proposed some additional taxation. "I never will be responsible," he said, "for the fatal policy of paying the whole cost of the war out of loans, without charging a reasonable amount to the tax-payer of the day. But I am afraid," he continued, "that it is not only a war deficit. I am afraid that the real difficulty before us is not so much the cost of the war in South Africa and China as the increase of what may be called our ordinary expenditure." Five years ago he had given a warning in this connection, and shewn how the proportionate increase of expenditure in twenty years had exceeded the increase in revenue. He now stated that during the past five years the revenue

(calculated on the basis of the taxation prevailing in 1896) would have yielded an increase of 16 millions as against an increase in normal expenditure of 28 millions. This increase of taxation had been provided by the additional taxation of 12¼ millions, imposed last year not for ordinary expenditure but for war services. He was forced to the conclusion that there was "no party or section of a party in the House that is in favour of economy for economy's sake." The opinion he had formed on the present situation was that we "were bound to make some endeavour to put our financial system on a broader basis, so as to bear the increase in our ordinary expenditure which may be necessary." But to broaden the basis of taxation without infringing principles to which he was strongly attached proved no easy matter. He began by discarding the idea of taxing manufactured imported goods, "because the finished product of one industry is generally but the raw material of another." "I confess I believe that the removal from our tariff of the scores and hundreds of articles which were on the list before the middle of the last century was even a greater boon to the working classes of this country than free trade in corn or anything else that was given to them. I believe it opened up the industries of the country, it increased employment, it developed industry in a way which was of infinite benefit to our working classes, and I believe, though I know that my friend (Sir Howard Vincent) does not agree with me, that it is largely due to that policy that at the present moment we raise so magnificent a revenue with so little effort to the country."

He defined what he was seeking as follows: "I want a tax which will be largely productive: I must levy a tax therefore on some article of universal consumption which is very cheap: I want a tax which shall not be open to the economical objection to which a protective duty on an article largely produced in this country would certainly be open, namely that it would raise the price of the whole amount of that article to the consumer by a far larger sum than it would yield to the Exchequer. I want a tax that everybody shall pay, not only those who are privileged to pay income-tax and death duties or those who indulge in alcohol or tobacco." New taxes answering to this description were not then discoverable, and the Chancellor of the Exchequer fell back on a revival of former taxes, one upon the import of sugar and the other upon the export of coal. The import duty on sugar drew from Sir Michael Hicks-Beach a long and very technical statement. The duty, which started from the point of 4s. 2d. per cwt. on refined sugar, was graduated according to the amount of crystallization, and was supplemented by corresponding duties on molasses and glucose; a tax of 20s. per lb. was also placed on saccharine. The other of the two new taxes, which took the form of an export duty of 1s. per ton on coal, was certainly new to the present generation of tax-payers, although the authority of Sir Robert Peel, who imposed 4s. a ton on the export of coal in 1842 (abolishing it, however, three years later), could be quoted in favour of it. It was one which Sir Michael Hicks-Beach described as "not a direct tax in my mind because it will not be paid by the producers of the article," nor an

indirect tax because "I do not think it will be borne by the consumers in this country." He gave reasons for thinking that it would fall on the consumer abroad; and some of the arguments he used were (as his opponents did not fail to point out) of a somewhat doubtful character for so pronounced an adherent of liberal and free trade ideas in taxation. The extra yield to be derived from the sugar tax was put at £5,100,000, and from the coal tax at £2,100,000.

The direct tax-payer was naturally called on for his share with the object of maintaining the existing proportion between direct and indirect taxation, still the only treasury finger-post to the perplexed paths of incidence. As a matter of fact (omitting the coal duty) the adjustment was rather in favour of indirect taxation as compared with the year 1899, the direct proportion rising, he said, from 48·4 per cent. in that year to 50·3 per cent. in the forthcoming year. The income-tax was accordingly raised from 1s. to 1s. 2d. in the £, and was estimated to produce an additional £3,800,000, making a total of £11,000,000 from taxation from the new proposals. By repeating the previous years' suspension of the sinking fund the deficit was further reduced to £39,707,000, or, including the interest on the fresh debt to be created, to about £41,000,000. This sum was to be met by borrowing and, in order to assist in financing the country during the early part of the year, Parliament was asked to give borrowing powers up to an amount of £60,000,000. The cost of the war having already reached over £153,000,000 (double that of the Crimean War), the Chancellor of the Exchequer was at last driven to confess that this war was "in

cost a great war," and that he would "no longer rely," in the optimistic spirit which had hitherto prevailed, "on temporary borrowing." In the 67 millions of unfunded debt maturing within the next ten years, there was an ample field for any redemption for which either the future prosperity of the country or the will-o'-the-wisp of Transvaal assistance might give the opportunity. The power of borrowing would now, therefore, be extended to a creation of Consols. Mr. Cohen, later in the session, made some comment on the element of danger which lay in the great amount of the unfunded debt. Leaving out the amount of the War Loan and also the 14 millions redeemable in 1901 and 10 millions in 1901 (which he hoped might be paid off out of the mines and the Transvaal indemnity) there were still 21 millions of Treasury Bills in the hands of the public, and mostly in those of the foreign public. Sir William Harcourt in 1894 had dwelt on the importance of unfunded debt being held at home, but the only real safeguard was to reduce its amount by funding it so that payment could not be demanded by the holder of the security at fixed times. Forced realization might at any moment bring disaster to the commercial and industrial classes. The decision of the Chancellor of the Exchequer to raise the additional millions required by means of an issue of Consols was therefore taken none too soon.[1]

[1] Other authorities at the time wrote strongly condemning a large unfunded debt. Sir Edgar Speyer, in an address to the Institute of Bankers, in 1905, spoke of the existence of the floating debt, which at one time was as high as 35 millions, as inimical to trade, absorbing funds which should have been at the disposal of the banks for the facilities which they are expected to give to private customers and traders; and Mr. (now Sir Frederick)

His views upon the serious character of the financial outlook were generally shared on both sides of the House; there was much in his speech, with its cautious avoidance of any grave departure from established financial principles, with which Sir William Harcourt could sympathize; and he was accordingly warm in his appreciation of the "ability and lucidity" of Sir Michael's statement and of his "honesty in telling this House and the country the real truth on the general financial situation of the country." He did, however, at the close of his speech allow himself some remarks on the optimism which had been relied upon at every stage of this lamentable contest, and which had found its natural expression that night in the "most disastrous financial statement that had ever been made by a Chancellor of the Exchequer in the House of Commons."[1]

Other speakers indulged in some pungent observations on the contrast between the impeccable sentiments on the subject of economy so often heard from

Banbury, in a letter to the *Times* in 1901, in the course of an argument against issuing several small stocks and short loans, instead of one large stock, observed: "The trustee will not take these short loans. He has the trouble and expense of reinvesting when they fall due; the beneficiary does not like them, because any advantage that may accrue from their redemption above the issued price goes to capital account and not to revenue. . . . They are nearly all taken by bankers and dealers in money. If trouble comes, these gentlemen all rush to sell: there are no buyers and a panic ensues. Further, they absorb all the floating capital in the market and consequently make money dear, the result of which is that the trade of the country suffers."

[1] Following the precedent established in the case of the previous year's War Loan, immediate steps were taken to raise the amount to be borrowed. The Loan Resolution having been carried in Committee of Ways and Means on Friday, the 19th April, the prospectus of the new issue of Consols was placed before the public on the following day. Subscriptions were invited for

the Chancellor of the Exchequer and his inability to stem the growth in the permanent expenditure of the country. "He had," said Sir Edgar Vincent in speaking of his courageous frankness about this expenditure, "so much the habit of stating truths which were a direct apparent condemnation of the policy which he represented that sufficient attention had not been given to this note of warning." But, on the whole, the budget proposals were well received in the House and the country, with the exception of the proposed coal duty which was hotly contested at every stage. On the question of the principle of an export duty, the weight of economic authority was decidedly adverse, in spite of a favourable opinion given by Professor Marshall in a letter to the *Times*. Sir Robert Peel, who had imposed a duty on coal in 1842, had abandoned it three years later, because he wished to establish the principle that there should be no duty levied on exports, and because of the complaints of the coalowners. An export tax, except in the case of a commodity which is a monopoly, is in fact a tax upon a particular trade. All the experts were agreed that, except as regards small portions of the coal produced, the Welsh steam coal for instance, there was little ele-

£30,000,000 Consols at a price of £94 10s. 0d. per cent., the prospectus stating that another £30,000,000 stock had been placed privately on the same terms. Allottees of the stock were empowered to make their payments by instalments extending up to the 5th December, 1901, or to pay in full on or after the 17th May under discount at the rate of £2¾ per cent. per annum. Seeing that the provisional scrip certificates to bearer had coupons for the July and October dividends annexed in full, the total "discounts" were equivalent to about another 16s. The amount of stock offered was immediately applied for about seven times over.

ment of monopoly in this case; and that the tax would fall far less on the foreigner than on the colliery-owners and exporters, and therefore would ultimately be felt by the miners. Mr. James Lowther did not like an export duty, but was consoled by Sir Michael Hicks-Beach's conviction that the foreigner would pay it. "This is a great advance, for the Chancellor of the Exchequer has always been regarded as the foreigner's friend." "If the foreigner," he shrewdly added, "is found to pay this duty it will continue"; if not "it will have to go and at no very distant date." The northern ports of Europe were the export markets on which we could rely, and there a not inconsiderable German competition was to be met. Sir Edward Grey, who argued forcibly against the tax, pointed to the danger of retaliation if the foreigner was affected by the tax. The shipping industry, as Mr. Charles Wilson and Mr. Russell Rea stated, would be hit, because it had been the course of trade to take out coal and bring back cargoes which were the basis of our industries. The latter member further observed that the "free and cheap import of food stuffs was governed by the export of coal because it was the only article of bulk and weight with which we could load ships outward bound." Sir Michael Hicks-Beach had spoken of a possible check in the export of coal on a "not unmixed evil to the country as a whole" in view of the possible approaching exhaustion of some portions of the coalfields. This argument was developed by a subsequent speaker, The Welsh steam coal was not an ordinary product. but "our special gift and almost our only asset" especially in case of naval warfare. Foreign nations

took it regardless of cost, and it was "suicidal to shovel this coal on to the foreigner." But the sounder opinion was, that it was the best economy to work it when you could get it. By far the greater part of the value of coal consisted of the labour which raised and brought it to market; if it had not been turned in the past into reproductive capital "England would have been smaller and poorer" (Mr. Robson); pits once closed down before long became unworkable, and the coal in such pits was as much loss to posterity as if it were actually consumed by the present generation (Mr. Fenwick).

The hardship imposed by the duty on exporters having current contracts for the delivery of coal free on board ship (F.O.B.) for exportation was dwelt upon by Mr. Thomas and others; and the Chancellor of the Exchequer at once recognized the justice of the complaint and announced a concession to meet it; all coal exported up to the end of 1901 under existing contracts being exempted. At a later date it was also found necessary to make a permanent concession on behalf of the cheaper kinds of coal which could not bear the full duty of 1s. per ton, and it was ultimately decided to grant a rebate of the whole duty on any coal the value of which was proved, to the satisfaction of the Customs, not to exceed 6s. a ton. In the result, these concessions had the effect of reducing the estimated yield from the tax by a sum of £800,000. But although they also had the effect of diminishing the agitation which had arisen in the mining districts, they by no means arrested it; and a large number of deputations, particularly from persons interested in shipping and in the coal

trade, continued to be received at the Treasury. The climax was reached in May, when the Miners' Federation of Great Britain actually passed a resolution recommending all miners to leave off work unless the tax was withdrawn. This threat of a strike, coming as it did just before the full-dress debate on the tax in the Commons, made it clear that a firm attitude was necessary if the tax was to be persevered with. The position for a few days was somewhat critical, but a conference of miners held directly after the Commons debate resulted in a resolution declaring that "this conference does not see its way clear to recommend a general stoppage at this juncture," and thus the question of a strike was dropped. The prosperity which had recently attended the coal trade, and the knowledge of the large profits realized by the coalowners, were of assistance to the Government in maintaining their proposals; and the moderation of the tax mitigated the evil effects which had been so freely predicted in various quarters. Its single merit, that of producing a much-needed addition to the revenue, maintained the duty in force for five years; but as a permanent addition to the national resources it proved a failure.

Throughout the turmoil occasioned by these discussions, both in and out of the House, the Finance Bill was slowly running its course. The sugar duty met with singularly little opposition; but the "women and children argument" was made use of by radical opponents; and the Irish party made a point of resisting these and all other budget proposals as a protest against the war and the alleged over-taxation

of Ireland. There was, however, a long discussion, principally maintained by Members familiar with the details of the sugar trade, as to the propriety of the scale of duties on the different classes of sugar and allied articles. The Chancellor of the Exchequer took a strongly free-trade line as regards this tax, and firmly refused any proposal to differentiate in favour of Colonial sugar, or to impose special duties to countervail the bounties given for the export of sugar by foreign Powers.

The discussion on the income-tax raised no new point of special interest, though most of those who opposed the coal and sugar duties thought that the income-tax should have been still further increased. Mr. Bartley's remarks on this question were as usual noteworthy. He insisted on the point that it was not the richer but the poorer income-tax-payers who contributed the bulk of the tax; but he considered that the existing exemptions and abatements had gone quite as far as was safe in relieving the latter classes, and while still in favour of differentiating industrial from spontaneous income, he fully recognized the enormous change in the incidence of the tax effected by the "great act" of Sir William Harcourt. "The death duties have made our taxation immensely fairer" than it was before the passing of that act; we were bound to consider the income-tax in conjunction with the death duties; and under the present system the rich man who is making a large income was, as he should be, comparatively heavily taxed. Mr. Fletcher Moulton took the same view as to the differentiation effected by the death duties; but pointed out that the degree of differentia-

tion instituted in 1894, when the income-tax had been at 8d., had been upset by the raising of the income-tax, and that the death duties should therefore be correspondingly raised. Mr. Lowther (Thanet) and Sir Howard Vincent were among those who objected to the raising of the income-tax on the ground that the revenue should have been raised by the taxation of imports. But their views, while meeting with some influential support in the press, secured but little open sympathy in the House though they produced a very significant comment from Mr. John Morley. "The Member for Thanet," he said, "is not well advised in his doctrines in my opinion, but it is idle to deny that he is much nearer to having a considerable following in the House and the country than he ever had before. If you are going to be militant Imperialists free trade goes. That is my firm belief, and the beginning of the job is the budget which the Chancellor of the Exchequer has introduced."

The really valid criticism of this budget was that it did not attempt to raise enough from taxation towards the expenses of the war. Mr. Sydney Buxton took a strong line in this sense, saying that 27 millions only out of 170 millions had so far been produced from taxation for the war.[1] Neither by direct nor by the proposed indirect taxation was sufficient revenue being produced, and he would have supported a further addition of 2d. to the income-tax with further graduation. But though many other Liberal members took the same view, there was no general disposition in the House to go beyond the proposals

[1] *Parl. Debates*, vol. xcii. p. 1111.

of the Chancellor of the Exchequer in increasing taxation. He made a good point in answer to Mr. Fletcher Moulton by shewing the injustice to individuals of making the estate duty a varying tax like the income-tax; and generally took a conservative view of the income-tax and of the possibility of maintaining it at a higher level than that proposed while deprecating differentiation or further graduation. In this Sir William Harcourt agreed with him (*Parl. Debates*, vol. xciv., 1131-1134).

The debates on the continuation of the existing taxes had little interest, and finally, on the 17th July, the Finance Bill left the Commons, after its third reading, with a majority of 170. It passed through the House of Lords without a division, but its second reading in that Chamber was marked by a weighty speech from Lord Welby, in which he very forcibly urged the necessity for greater prudence with respect to the normal expenditure. In reply to some remarks by Sir Edgar Vincent, who had commented on the loss of prestige by the Treasury and of its power in controlling expenditure, he said, "Some mystical notions are held of the powers of the Treasury, but the fact is the Treasury is a department, organized like any other department, with a Minister, generally a powerful Minister, at its head. But that Minister is subject to the Cabinet, and the Cabinet is influenced by public opinion, and I think the experience of your Lordships will teach you that if public opinion is in favour of economy the Finance Minister is all powerful. If public opinion is careless about economy, then the Finance Minister is absolutely powerless." No one was more competent than a great official

trained by Mr. Gladstone to have added that the prestige of the Treasury, as a critic of expenditure, depends in no small degree on the predilections and personality of the Chancellor of the Exchequer.

The year did not pass without the necessity for some supplementary estimates, but the funds raised by the new issue of Consols were sufficient to tide over the additional requirements. These consisted of a further £5,000,000 for the Army, £200,000 for the Navy, and £7,431,000 for the Civil Service and Revenue Departments, this last item being chiefly composed of £6,500,000 for the civil administration which was being set up in the Transvaal and Orange River Colony. There also figured in these estimates a grant of £100,000 to Lord Roberts, who had now returned from the seat of war to take up the duties of Commander-in-Chief at the War Office, leaving Lord Kitchener to carry out the final stages of the campaign in South Africa.

SIR MICHAEL HICKS-BEACH'S SEVENTH (AND LAST) BUDGET, 1902-3.

April 14, 1902.

THE year 1902 proved to be the last in which it was necessary to budget on a war basis, and, indeed, so much did affairs in South Africa seem to point to a cessation of hostilities in the early spring that it was a question whether the budget statement should not be held over pending the result of the communications which were known to be passing between the Boer generals and the British Government. There

were, however, two strong reasons against postponement: military operations had not actually ceased and it seemed therefore desirable after so many disappointments to prepare for the worst alternative, and it was considered that nothing would be more likely to conduce to peace than some further proof by the House of Commons of the country's determination to carry the war to a successful conclusion.

The year which had just closed, although shewing no very marked features, was not unfavourable in its financial and commercial aspects. Although several trades were still suffering from the depression which had set in at the end of the year 1900-1901, some from the national mourning and others from the conditions prevailing in foreign countries, especially in Germany; yet, on the other hand, such records as the returns of the Bankers' Clearing House, of deposits in savings banks, of the railway traffics and of coasting trade, shewed no diminution of business at home; and as regards foreign trade, in spite of a slight fall in value, there was a satisfactory increase in volume. There was, on the whole, no reason to think that there had been any falling off in the consuming power of the people.

The realized results for the past year corresponded to a remarkable degree with the estimate, the aggregate Exchequer receipts having exceeded the estimates by about half a million. In some items of the customs and excise revenue there had been a falling off, the receipts from tobacco from spirits and from beer having shewn a substantial decrease, due, in the first two cases, to the forestalments of duty in the previous year. But a considerable income from tea

and cocoa had gone towards making good these losses, and on the whole the customs and excise receipts were only down by about half a million.

The sugar duty had proved a great success. It had yielded £6,390,000 instead of the estimated £5,100,000, owing mainly to forestalments in December, January and February, in anticipation of an increase ; and the fall of price, which had resulted from an exceptional beet harvest, had caused the tax to be very little felt. The wholesale price had been raised by 2s. a cwt. (including the duty of 4s. 2d.) over the price of the previous year, and the retail price had declined from the ½d. per lb. anticipated to ¼d., or even to no increase at all in some cases.

The yield of the beer duty fell below the net receipts of the previous year by £200,000, the second year in which there had been a decrease in the consumption of beer and the forerunner of many others. The coal duty, the imposition of which had aroused so much controversy and given rise to so many prophecies of ruin to the coal-mining and exporting industry in the previous year, had produced just over the estimate of £1,300,000, after allowing for the exemptions granted to certain contracts made before the budget and for the rebate on coal not exceeding the price of 6s. per ton free on board. The exports in the year ending March last had amounted to 44,064,000 tons, more than in any previous year except the record year 1900-1 ; it had held its own in competition both at Hamburg and in the Mediterranean ; and exports of duty-free bunker coal had risen, proving that ship-owners had taken coal for the round voyage instead of coaling in foreign ports. The death duties had

produced £1,220,000 more than the previous year and £200,000 over the estimate, owing partly to arrangements for collecting arrears of the tax; but the heavy fall in stock exchange securities, especially railways, would soon begin to affect the yield. This had produced its effect on the stamp duties which were £200,000 below the estimate; and the additional million required to produce the net ½ million increase above referred to was found in the returns from the income-tax, which, estimated at £33,800,000, had actually produced the very large sum of £34,800,000, while the yield per penny had risen to 2½ millions. The total revenue raised by the State (including £9,713,000 paid to the local taxation accounts) had amounted to £152,711,000.

The total Exchequer expenditure for the past year had amounted to £195,522,000. After meeting the deficit from the funds raised by means of the 60 million Consols loan, there still remained a surplus receipt of £4,029,000, which was the main factor in increasing the Exchequer balances on the 1st April to £8,567,000, as against £5,597,000 a year ago. They would, indeed, have stood at a higher figure by £1,264,000, if there had not been a slight delay in repaying an advance which had been made for some capital expenditure.

On the basis of the existing taxation, it was anticipated that the coming year would produce an Exchequer revenue of £147,785,000, and this left a deficit of nearly 27 millions on the estimated expenditure, viz. £174,609,000, treating the anticipated outlay on the Army, included in the estimates, as providing for the maintenance of the South African

field force for a period of eight months only. But as this afforded no provision for the maintenance of the garrison beyond that time, and as war, besides being a very costly thing to wage, was also a "very costly thing to terminate" it was necessary to reckon on the expenditure of a considerable further sum for gratuities, bounties, transport and disembodiment charges; and, allowing also for interest on the fresh debt to be created, the Chancellor of the Exchequer asked to be allowed to add 18½ millions to the 27 millions above mentioned. The task to which he had to apply himself was accordingly to raise a sum of 45½ millions.

Seeing that a portion of the sum would of necessity have to be met by borrowing, he at once suspended the sinking fund (as in the last two years), and by this means provided 4½ millions, reducing the net estimated deficit to 41 millions. This being primarily a war deficit, he considered that so far as raised by taxation both the direct and indirect tax-payers should be called upon; and the first proposal was to add another penny to the income-tax, "our great financial engine in the time of war" thus bringing it up to 1s. 3d. in the £. The estimated yield from the additional 1d. was put at £2,000,000 in the current year. Another £500,000 was to be obtained from an increase of the stamp duty on cheques from 1d. and 2d., but this scheme was entirely abandoned at an early date.

Still impressed with the necessity of making provision for a permanent rise of expenditure, the Chancellor of the Exchequer resumed this year his search for a new indirect tax (for he rejected the plan

of adding to the sugar tax or any other existing duty) which should realize the ideal of "producing the most revenue with the least injury and inconvenience to the community." He thought he discovered this in the old shilling registration duty on corn and flour, the history of which he gave in some detail, concluding that its abolition by Mr. Lowe had been a great mistake. He therefore proposed its revival in the form of an import duty of 3d. per cwt. on corn and of 5d. as a correlative duty on flour and meal, which he calculated would yield £2,650,000. By these means the deficit was reduced to 35½ millions, and this sum was to be met out of the proceeds of a Consols loan for 32 millions and drafts on balances which, as explained above, then stood at an abnormally high figure.

The desultory discussion which followed the statement on the budget night itself made it abundantly clear that determined opposition would be offered to the corn tax, a tax which Sir William Harcourt at once denounced in the strongest terms. "I think," he said, "this is quite the most formidable proposal for taxation that has been made for many a long year. I think, too, it is far the most objectionable proposal; and if I had to select the one tax which was the worst that could be chosen I should say it was the tax on corn."

The Loan Resolution having been disposed of on the following night, the prospectus of the new loan was at once issued. Of the £32,000,000 new Consols created, one-half was placed privately, and the public were only asked to subscribe for £16,000,000 at a price of 93½ per cent. When the lists were closed on

the 18th April, it was found that the total amount applied for exceeded £300,000,000, about the same amount as the application for the 30 millions war loan of 1900 which had been issued at £98 10s. When the Loan Bill was in the House of Lords, Lord Goschen took occasion to remark on the strength of the country's credit. By that time the price had risen to 97 for what was practically a 2½ per cent. stock, the 2¾ rate only lasting till April, 1903. This was a remarkable result, considering that £159,000,000 had been borrowed for the war of which £122,000,000 was an addition to the permanent debt; and shewed, as Lord Goschen pointed out by a calculation based on the price of 3 per cent. Consol Stock at the time of the conversion in 1888, that a 2½ per cent. stock stood 13 points higher than it would have done in that year. The fall of this stock did not seriously set in for a year or two longer.

On Sunday, the 1st of June, some time before the Finance Bill of 1902 left the Commons, arrived the long-anticipated news of the cessation of hostilities in South Africa. The earliest opportunity was taken by the Government on the third reading of the Loan Bill to make some revisions in the estimated balance sheet for the coming year. On the revenue side some small adjustments in the corn duty involved a reduction of £250,000, and a further reduction of £500,000 represented the cheque duty, the abandonment of which the Chancellor of the Exchequer had announced on the second reading. On the expenditure side the revised calculation, which included the restoration of the sinking fund, made the total £176,359,000, leaving a deficit of £28,574,000. The Chancellor of

the Exchequer courageously insisted on maintaining both the income-tax and the corn duty, and thus reduced the deficit to £24,174,000 which would be met out of the loan, leaving a margin of £6,000,000 for the relief of floating debt. It may, however, here be noted that no such application was made of this sum, for before the year had expired, supplementary estimates (1) for £771,000 for the Civil Service, (2) for £8,250,000 as a grant in aid of the revenues of the Transvaal and Orange River Colony, and (3) for £50,000 as a grant to Lord Kitchener, more than exhausted this remaining balance of borrowed money.

The chief historical interest of this budget is of course the discussion raised by the corn duty proposal. "The glut in the sugar market," as one of the speakers observed, "covered the imposition of the sugar tax, and the great gamble in the coal trade the year before last favoured the imposition of the export duty." If Sir Michael Hicks-Beach imagined, as he had some excuse for doing, that his revival of the corn duty was going to be accepted as a natural and even orthodox addition to the fiscal resources of the State to meet the increased needs of the time, he greatly misjudged the situation which was to arise. He made much of the authority of Sir Robert Peel and Mr. Gladstone in support of the tax, the former having reimposed the duty when he abolished the Corn Law, and Mr. Gladstone having left it in existence while he removed a host of other duties from the tariff; but Sir Henry Fowler put a different complexion on these historical arguments, with which, however, it is unnecessary to deal here.

The Chancellor of the Exchequer, as well as Mr. Austen Chamberlain and Mr. Bonar Law, urged that when there was a surplus production abroad beyond the requirements of consumers the tendency was for the foreign producer to pay the tax; the British importer might also bear some portion of the burden, but in any case the charge was so small that it would hardly be felt. Such arguments were somewhat inconsistent with another which was put forward and was generally recognized as sound, namely that it was desirable that all classes should bear their share of the burden arising out of the war, and that those who had votes should be taught that they also had responsibility. And if, as all economic experience seemed to shew, such a duty must in the long run have the effect of raising the price of wheat against the consumer, here certainly was a tax which, as far as it went, was, as Sir William Harcourt observed, specially severe on the poor. It was even, said Mr. Fletcher Moulton, graduated strongly against the poor, for the poorer the family the more exclusively was it dependent on the consumption of bread. If the duty could be thus represented, it was a much more direct challenge to the tendency of the times and the growing, perhaps unreasoning, sentiment of the House against indirect taxes which fell upon the masses than some additions on familiar lines to existing customs duties (such as was urged by Sir Henry Fowler as an alternative) would have been. The action of the Chancellor of the Exchequer might be described as either very bold or very impolitic; but if he had anticipated the controversy which was to be excited by the other aspect of the tax, its pro-

tectionist character, the revival of an old and bitter controversy which it was to encourage, and its ulterior consequences upon his party, it can hardly be doubted that he would have shrunk from the reimposition of the corn duty. Sir Michael Hicks-Beach indeed from the first, with absolute sincerity, scoffed at the idea that there was any protectionist intention in the duty, or that it would have any protectionist effect; but Sir Howard Vincent's stentorian "Well done" at the budget announcement and the politic abstention of the Fair Trade section (noted by Sir Henry Campbell Bannerman) from "dotting the i's" during the discussion, gave a significant answer to his contention. As a revenue tax it had one great vice, at all events in theory: it raised a larger sum from the consumer than went to the Exchequer. "Your tax," said Sir William Harcourt, "is pretty accurately stated to operate on the two-thirds of the supply of corn and flour, and the proceeds of that go to the Exchequer. But you equally raise the price of the other third raised at home, and nothing goes into the Exchequer from that. That is the vice of all protective taxes." Four millions would be taken from the consumer, and £2,500,000 only would go into the Exchequer. The tax was represented as a return to the so-called registration duty removed in 1869, but the new duty was in the first place more comprehensive than the old; the imposition of a fresh duty was a very different thing to the mere retention of an old one; and, as Mr. John Morley pointed out, it was more protective than in 1869 because, with wheat so much cheaper, a shilling tax was now a higher percentage than at that time.

Professor Bastable said the tax was twice as heavy as in 1869. The free-traders argued that it was protective to the farmer, and protective on the universal raw material, and that there was protective discrimination in favour of the miller. Lastly, the duty, if increased, could be used so as to give a preference to the Colonies, and this was suspected in some quarters to be the true reason for its introduction.

All these allegations were in turn disputed. A protective tax protects, this one did not; and not an acre would be added to the wheat area in this country on account of it. The proportion between flour and corn was the fairest possible; and it was not inconsistent with free trade that, so far as any infinitesimal bias existed, it should be in favour of the home miller. As for a Zollverein, the Chancellor was in favour of it on a free trade basis, if that were possible. Free trade with our Colonies would not necessarily involve the imposition of duties as against foreign nations; "but if we could have free trade" with our Colonies, even some sacrifice in that direction might be made. In spite of this somewhat ambiguous sentence, the speech was taken as an assurance that the Government had no intention by this small tax of opening the door to preferential tariff arrangements.

Lord Goschen's defence of the tax may be quoted as summing up the argument in its favour in a most reasonable way. He considered the tax had one special virtue in that it went to broaden our system of taxation; and, in regard to its suggested protective element, he drew a distinction between a tax which was wholly protective and one which, though of a

protective nature, was not imposed for the purpose of protection. "Theoretically," he said, "no doubt this might be called a protective duty, because it is imposed on foreign produce and there is no corresponding excise duty. But, practically, it is insufficient to protect on account of its infinitesimal character; and, consequently, so far as it goes, I think the noble Lords opposite will agree that the idea that it is protective cannot be entertained. Are we to reject a duty of this kind if it broadens our system of taxation—one of the most important objects which any financiers in these days should strive to attain—because it is protective? I know one merit which this tax has got, and that is that it is easily collected and creates no disturbance of trade. Many other projects might have been devised which might have been difficult to collect and which might, at the same time, have disturbed trade seriously. This is, apart from the theoretical question that has been raised by the noble Lords opposite and by economists outside, an efficient tax, a tax which does not bear heavily on trade and which will not materially increase the burdens of the people. But, it is said, this is but the thin end of the wedge, and I think that, if we were to look into the reasons which have animated objections and influenced the opposition against this tax, we should find that it has not been so much the effect of this particular small tax as the fear that it was the beginning of a system of protection."

It was undoubtedly in this spirit that the country accepted the tax, and Sir Michael Hicks-Beach was justified in his observation that in spite of parliamentary criticism, there was no really serious opposi-

tion to his proposal. Some expert opinion outside Parliament, indeed, and much journalist comment, favoured a far bolder attempt than his to meet the situation, by reverting to older methods of taxation; that of Sir Robert Giffen, for instance, in a series of articles in the *Times* (Jan. 7, 9, and 11, 1902), which attracted some attention. He took characteristically an optimistic view of the increase of expenditure, which, for various reasons, and especially the fact that this country was no longer in the enjoyment of the immunity from foreign rivalry and possible attack which had been her fortunate lot during the preceding forty years, must be of a permanent character. He considered that the new higher level of expenditure (150 or 160 millions) was no greater in proportion to the wealth of the community than it was forty or fifty years earlier, that the proportion of the cost of the war defrayed by borrowing had not been excessive, and that a larger proportion could hardly have been defrayed out of taxes "without a financial disturbance which would have been wholly unnecessary." He was emphatic as to the necessity of reserving high direct taxation for emergencies "for which they are eminently adapted on account of the facility with which they can be put up for an occasion, so as to obtain the exact sum wanted without any disturbance of trade such as is necessarily attendant on changes in indirect taxation." He doubted whether the actual emergency had been great enough to justify an income-tax of 1s. 2d., and insisted on the importance of providing for the additional permanent expenditure of the country by indirect taxes. He considered that 20 millions could

easily be raised by a duty on corn 1s., timber 1s. per load, petroleum 1d. per gallon, 3d. more on tea, and ½d. on sugar, besides another 3s. per barrel on beer; and that if further calls came, an effort should be made by a readjustment of local taxation to resume for the State the 10 millions handed over to the local authorities some years back. At the same time, he thought the income-tax should gradually be reduced to 6d. In such suggestions Sir Robert Giffen shewed himself in strong opposition to the tendencies noted in these discussions, tendencies which became even more accentuated after the general election of 1906; and another defender of the duty, Mr. Winston Churchill, then a young Conservative member, shewed a much clearer insight into the political possibilities of the future. Deeply impressed with the increase of expenditure, which he thought "out of all proportion to the national enrichment" and to which he saw no effective check, he thought that the necessary broadening of the basis of taxation would lead to serious taxation of bread and meat and other necessaries of the food of the people. He wondered what would happen if the fair trade issue was openly raised by some responsible person of eminence and authority in the country. They would stand once more on the old battlefields . . . party bitterness would be aroused such as the present generation could furnish no parallel for, except in a brief period of 1885-6. He wondered how the advent of such a tremendous issue would affect the existing disposition of political parties." [1]

Little more than a year was to pass before this

[1] *Parl. Debates*, vol. cvi. p. 240.

"tremendous issue" was to be raised in precisely the manner foreshadowed by the speaker, and Lord Goschen was to denounce the new departure as a "gamble in the food of the people." But the other issue of which Mr. Winston Churchill spoke on the same occasion as springing from the continued growth of expenditure which he predicted, and the difficulty which he foresaw in broadening the basis of taxation by an increase of indirect taxation, was to be postponed for a few years longer. He could, he said, "quite conceive of a budget of £200,000,000 being extremely popular and supported by the enormous mass of the voting strength in the country. But he wondered who would pay. . . . Was it seriously to be supposed that the democratic electorate in time of peace would accept such a burden? To broaden largely the basis of taxation would therefore raise . . . something much more formidable than a political issue, it would raise an issue directly social."

That issue was to be postponed by the defeat of the "fair trade" or, as it came to be known, the "tariff reform" party at the polls, by an unlooked-for wave of prosperity in the country, and by the advent to power of a ministry which did not hesitate to reform and largely increase the direct taxes. But not by any slackening of expenditure, whether for armament or for social reform; and the same problem which confronted the Parliament of 1902 may easily confront another House of Commons in a more menacing form than before with the resources of direct taxation, for the time at all events, well-nigh exhausted and indirect taxation condemned by Socialist representatives of labour as violating every

sound principle because it " does not tax the citizen according to his ability to pay " and " promoted no sense of citizenship " (Mr. Snowden, *Times*, Dec. 14th, 1911).

The budget of 1902 is of extraordinary interest as containing the germ of all these momentous questions. Together with that of 1901 it foreshadowed clearly enough a formidable increase in the cost of governing the country ; it indicated, on the one hand, the danger that some future Government might, in the words of an above-quoted speaker, " so arrange taxation that a great majority of the electorate will, as it were, be divorced from all real responsibility, and the burden laid on a minority without any great voting strength," with the result of making this country " not a good country for capital . . . then indeed will the whole vast structure of our credit and authority come clattering down, and the only choice we shall be able to offer to the manufacturing multitude will be to emigrate or starve." These budgets illustrated, on the other hand, the extreme difficulty of imposing new indirect taxes affecting the poorer classes or even of materially increasing old ones, while the alternative of carrying the income-tax downwards was suggested, as it has been since, only to be dismissed as impracticable. This difficulty was increased, perhaps indeed mainly caused, by the want of any real standard, except the rule of thumb proportion between the total of direct and indirect taxation, to guide fiscal legislation. " Until you have some method," remarked Mr. Morley with great justice, " automatic or otherwise, for adjusting the relation between direct and indirect

taxation, there will, depend upon it, be great trouble." A great opportunity for laying down some clear principles based on exhaustive study of the facts of incidence was missed, and in the absence of clear thinking and definite principle on this matter Members of Parliament talked themselves and their constituents into a sentiment of opposition to each and every form of taxation which could be seen to affect the masses of the people.

Partly to this cause, and partly to the reluctance of the Conservative party to tackle the reform of the income-tax and to increase in an adequate manner the yield of direct taxation, was due the failure to defray a sufficient proportion of war expenditure out of revenue and the over-readiness to resort to borrowing, upon which members like Mr. Haldane, Mr. Buxton, Sir Edgar Vincent, Mr. Macrae and Mr. Shaw—not to speak of Sir William Harcourt—strongly animadverted in these discussions. It was not that the revenue was at that time inelastic—there was ample margin for expansion both in direct and indirect taxation—but that neither the Ministry nor the House were willing, in spite of much fine talk, to risk unpopularity by asking the country to pay its way as in Peninsula or Crimean days.

With the reconstruction of the Ministry under Mr. Balfour as Prime Minister upon the retirement of Lord Salisbury (July 11), Sir Michael Hicks-Beach resigned the Chancellorship of the Exchequer, the Finance Bill having been read a third time in the House of Commons on June 25, and was succeeded at the Treasury by Mr. C. T. Ritchie. He had been reponsible for no less than seven budgets, and had

experienced in almost equal degree the height of good fortune and the depths of adversity. During his period of office this country had risen to a level of prosperity so far unequalled in her history, and been plunged into a period of financial embarrassment from which only a renewed and unexampled industrial and commercial advance has enabled her to make a successful rally in recent years. The time has of course not arrived for passing a judgment upon his Chancellorship of the Exchequer. But this much, in view of the various criticisms quoted in the preceding pages, may perhaps be said—that the future historian will not fail to dwell upon his mastery of the business of his own department, his adherence to that conception of his great office which treats finance as finance and not as an instrument of policy, his clearness in exposition, his conscientiousness in investigating facts and accepting the conclusions to which they led, and his unexpected freedom from class prejudice and intellectual and party prepossessions.

MR. RITCHIE'S BUDGET, 1903-4.

April 23, 1903.

Mr. Ritchie's first care, after some reference to the conditions of trade and industry in 1902 which though not equal to the bumper year 1900 had somewhat improved over those obtaining in 1901, was to demonstrate the wisdom of his predecessor in having maintained the financial provision made in the first edition of his budget for the year 1902 on a war basis; for making peace had proved nearly as costly as making war, and the year's revenue, as well as the whole proceeds of the £32,000,000 Consols loan, had been required to meet the various outgoings.

The time had at last arrived for a review of the cost of the late war, and some figures of great interest were accordingly given by the Chancellor of the Exchequer as to the expenditure on account of the operations in South Africa and China during the last four years up to the 31st March, 1903. The total cost was estimated to have amounted to £217,000,000, or more than a quarter as much as the computed cost of the great French War which lasted eight times as long. Of this amount there was defrayed out of revenue £67,500,000, leaving a balance of £149,500,000, which had been met out of capital. In other words, 31 per cent. of the expenditure had been charged to income and 69 per cent. to capital account.

There was some truth in the criticism which described even these calculations as optimistic. Leaving aside the question of the additional cost involved in the methods adopted for borrowing, certain members of the opposition had always quarrelled with the method adopted by Sir Michael Hicks-Beach of assigning to the head of taxation the sums procured for the revenue by the suspension of the sinking fund in 1900-1 and 1901-2, £9,228,000 in all. "He had to point out over and over again," said Mr. Sydney Buxton on this occasion, "that while it was quite right during a time of borrowing to suspend the sinking fund because it was exactly the same whether you applied it to the liquidation of new debt or to the purchase of old debts, it was not right, in considering how much had been met from additional taxation, to take into account the question of the sinking fund." Clearly, however, sinking fund money is drawn from taxation, though it was not additional taxation in the above sense.

Mr. Ritchie had pointed out how impossible it was to earmark with any accuracy the charges due to a great war, or to draw any precise line between the expenditure which had been caused by the war and the expenditure which would have been incurred had there been no war. According to the figures given in the return moved for by Mr. Buxton (the return of the cost of the wars in South Africa and China, 130 of 1903), which he adopted in his budget speech, the proceeds of new taxation in the three years up to April 1st, 1903, had been £75,150,000; but as there had been deficits on the ordinary revenue of the three years of £16,694,000, the balance of the

new revenue available for war charges had been £58,456,000. Whether, however, the sum contributed from taxation to the cost of the war was this amount or whether the revenue set free by the suspension of the sinking fund (£9,228,000) should be added, making £67,684,000—whether, in short, it amounted to 31 per cent. or 26 per cent.—it compared very unfavourably with the proportion of taxation to loan shewn in the case of previous war periods. During the great French War (1793-1815) 47 per cent. of the huge total of £831,000,000 was met by taxation, and only 53 per cent. by loans; in the Crimean War, out of £67,500,000, 47·4 per cent. came from taxation and 52·6 per cent. from loans, and in the period of 1881-1886 £21,000,000 was spent on warlike operations, out of which 58·3 per cent. was defrayed from taxation. It is a strange reflection on the management of British finances during the South African War that the nearest modern parallel in the matter should be that of the poorest of first-class military states, Japan. The direct cost of the Russo-Japanese war to Japan was £203,094,262, of which sum 21·6 per cent. was met out of revenue and 78·4 per cent. by loans.

The indirect cost of the South African War is impossible to estimate. The war, as Mr. Edgar Crammond has pointed out (in his "Finance of War," a paper read before the Institute of Bankers on April 20, 1910), practically absorbed "two years' savings" which would otherwise have been available for investment abroad, with the inevitable result of depressing our export trade. During the three years 1900-1-2, the average amount of capital offered for

public subscription in London for foreign and Colonial investments was £47,167,000, and the value of the exports of British manufactures averaged £284,879,000. For the three years, 1906-7-8, when the effects of the war had been practically overcome, the corresponding figures were £104,921,000 and £392,908,000 respectively. During the ten years which followed the outbreak of the war, the market value of home railways declined by about £300,000,000, and of Government stocks by about £190,000,000; but, as Mr. Crammond observes, it would be extremely difficult to define the exact proportion in which the shrinkage was due to the war.

The reluctance to impose taxation, commented upon in the account of the budget of 1902, had naturally shewn itself in a very serious increase of the national indebtedness. Our aggregate liabilities on the 31st March, 1903, amounted to £798,349,000. The funded debt had been increased, by the creation of Consols, by £92,000,000; and the unfunded debt, by the creation of the War Loan amounting to £30,000,000, of Exchequer Bonds for £24,000,000, and of Treasury Bills for £13,000,000, altogether £67,000,000. Mr. Ritchie naturally took the line that this was "an enormous sum to have raised in two years and a half"; and he thought it was very satisfactory that he had been so loyally and readily supported by the City, and that his predecessor had been wonderfully successful in harmonizing the interests of the nation and the interests of the money market in the arrangements he had made for raising the money. It would be certainly unfair to underrate these difficulties.

The Chancellor of the Exchequer dealt at considerable length with the fall of Consols, then quoted at 91, which was causing "apprehension and even dismay." The really remarkable phenomenon, however, was not the fall which had occurred, but the abnormal height at which Consols had stood in the closing years of the nineteenth century. Mr. Ritchie made some interesting observations on this point. A period of very cheap money followed upon the "Baring crisis" in 1890, during which the rapid output of gold in the Transvaal and the silver panic in America caused money to pour into London for investment. The bank rate had accordingly stood for some years at 2 per cent.; but even this did not adequately represent the price of money, for it had been possible to borrow on twelve months' Treasury Bills at a rate of 13s. 9d. per cent. per annum. Trade was not active; capital was shy of industrial enterprise both in England and abroad; and it was a profitable transaction to buy Consols yielding $2\frac{3}{4}$ per cent. with money borrowed from the bankers at $\frac{1}{2}$ to $\frac{3}{4}$ per cent. "In addition to these causes which operated to raise the price of Consols, the Government became a large buyer of Consols because of the growth of the Savings Bank deposits, which always increase largely when money is cheap but do not grow so largely when money is very dear. We had, as the Committee know, to borrow at one time a good deal of money in connection with redemption of Consols. When that operation ceased more money was available, and so the Government added to the money which was in the market. All these circumstances created a good demand for Consols . . . with the

inevitable result that Consols were forced up abnormally high." Then came a period in which all these conditions were reversed. Great activity prevailed in trade; money became dear, so dear that as much as £4 17s. 5d. per cent. per annum had to be paid for six months Treasury Bills, war expenditure and borrowing began, sinking funds were suspended, less gold came from South Africa, the category of trust securities was enlarged, and the interest on Consols came down from $2\frac{3}{4}$ to $2\frac{1}{2}$ per cent. There was therefore nothing to wonder at in the fall which had occurred. The Chancellor of the Exchequer proceeded to shew the fallacy of comparing the then current price of Consols with its price in the early seventies (the latest date at which Consols touched 91 prior to the Boer War) when the rate of interest was 3 per cent. as compared to the rate of $2\frac{1}{2}$ in 1903, so that the yield to an investor was £3 6s. per cent. in 1870, and only £2 15s. in 1903. Further, comparing the yield from Consols with the yield from French and German Government securities over a period of ten years, he showed that the fluctuations to our disadvantage were far from serious. "When," he added, "we remember that we have gone through a great war, which necessitated our borrowing over £150,000,000, I think we may congratulate ourselves on the fact that the difference is not more marked; and that we may, with a large heart, put aside all the sorry prognostications made of late with regard to the financial position of the great stock of this country."

In the past year the aggregate Exchequer receipts had fallen short of the estimates by a sum of £633,000

only, a very small difference indeed, seeing that the Exchequer revenue had now reached the gigantic sum of £151,552,000. The deficiencies were: in customs £767,000, in excise £600,000, in non-tax revenue £166,000, together £1,533,000. These deficiencies were in part made up for by excesses in death duties of £650,000, house duty £50,000, and income-tax £200,000, together £900,000, leaving a total deficit on the estimates, as stated, of £633,000.

The Exchequer revenue of the year 1902-3 had been £151,552,000, of which £129,933,000 represented the proceeds of taxation.[1] The provision made by taxation and loans had been £176,359,000, which had been exceeded by £8,125,000 accounted for by the supplementary provision for the Transvaal and Orange River Colony (£8,000,000). The total expenditure for the year had thus, including £9,767,000 for local taxation accounts and £6,876,000 for capital expenditure, been no less than £201,127,000.

The expenditure for the coming year was put at £143,954,000, or about £40,000,000 less than the total for 1902-3 which, excluding the local taxation and capital expenditure items, had been £184,484,000. The war expenditure, that is, had fallen from £55,132,000 to £9,000,000 (£4,500,000 interest on war debt, and £4,500,000 for grants to meet war charges). There were, however, increases on all other heads of expenditure, the more important of which were £3,287,000 for the Navy and £1,211,000 for civil services. The total included an annual debt charge

[1] To obtain the total proceeds of taxation, however, it is necessary to add the revenue assigned to local authorities, which Mr. Ritchie stated as £9,767,000, making in all £139,700,000.

fixed at £27,000,000, one million less than the sum allotted by Sir Stafford Northcote in 1875 for this purpose. It was, however, owing to the reduced interest payable on the debt, a more adequate provision as regards reduction of debt. It would actually be making an immediate addition of ¾ million to the sinking fund in a full year, thus appropriating for that fund three-fifths of the saving effected by the completion of the Conversion Scheme, viz. £1,250,000.

There would be available for the sinking fund £6,600,000, as compared with £5,750,000 the previous year, and, as payments were received on account of the loan from the Transvaal (three or four millions was confidently expected from the proposed guaranteed loan in the current year in repayment of Colonial expenditure from Imperial funds and, in the course of three following years, a further sum of 30 millions, by way of contribution towards the expenses of the war), the amount available for reduction of debt would be much increased. On March 31, 1903, the debt (excluding other capital liabilities, £27,570,428) stood at £770,778,000, and the sinking fund at £6,600,000, or ·85 per cent. On March 31, 1875, when the debt stood at £769,000,000, the sinking fund proportion of the debt charge was (for 1875-6) £4,092,221, or ·53 per cent. of the debt. By March 31, 1908, it was calculated that the debt would be £694,000,000 (it was actually £708,976,000) and the sinking fund £8,841,000, or 1·25 per cent.—"the largest amount both absolutely and proportionately which had ever been so applied."

A good deal of criticism arose on this item on the second reading, partly from misconceptions of the

amount set apart by Mr. Ritchie. Mr. Cohen would have liked the corn tax retained, and Sir Edgar Vincent another penny on the income-tax for debt redemption. Mr. Ritchie fully sympathized with their desire to provide an efficient sinking fund, as he had shown by his proposal, and he further explained this proposal by saying that the sinking fund had of late stood at £23,000,000 and that an extra £4,500,000 was required for interest on the war loans, making an aggregate of £27,500,000. From this he deducted £1,250,000, representing the decreased rate of interest payable on Consols, so that £26,250,000 would have represented the full amount needed on the basis existing before the war. The Chancellor of the Exchequer in his budget statement further pointed out that the sinking fund would become much more operative with Consols at or below par than it had been for some time previously. I believe, he said, "I am not taking too sanguine a view of the operation of the fund when I say that, if the debt is not added to, and if the annual charge is maintained at the proposed amount, the whole of this gigantic debt can be wiped out within fifty years from now. That is a startling proposition, but I believe it to be none the less true." Whatever the value of such hypothetical calculations may be, the provision made by Mr. Ritchie was perhaps a creditable one, more so than might have been expected from previous dealings with the question of the National Debt; although as Mr. Cohen, a Conservative member, afterwards truly remarked, the comparison with 1875, when the revenue stood at 80 millions only as compared with 144 millions in 1903, shewed

that the present generation was making a much less serious effort to reduce debt, and that the proportion set aside in the latter year for the service of the debt contrasted very strikingly and not very favourably with the sum allocated by Sir Stafford Northcote.

The growing burdens of the naval, military, and civil expenditure were all commented on in the usual strain. The *entente* just being inaugurated by the visit of King Edward VII. to Paris, warranted some hope of limitation in the growth of armaments; and in any case we were proposing now to spend less relatively to our means than we had been spending forty years ago under this head. Mr. Ritchie spoke as his predecessor had often done about the growth of civil expenditure, and in his remarks he almost succeeded in anticipating the extent to which the Exchequer was to become the "universal milch cow." "It is demanded of us," he observed, "that harbours of refuge shall be constructed and reserves of food kept; stipends for Members of this House are to be found, and election expenses are to be paid; employees of the state are to be better paid and better provision is to be made for them when they retire"; and to this list he afterwards mentioned that old age pensions might be added as another item. "It is only," he somewhat tamely concluded, "by being less reckless in the expenditure that money can be kept out of the hands of the tax collector."

The concluding portion of Mr. Ritchie's budget statement, and that which made it memorable, dealt with his proposed remissions of taxation—"the most interesting, but, I think, the most difficult portion of my task." From existing taxation, he calculated,

[very optimistically looking at the results of 1902-3—*e.g.*, Customs was put up by £2,207,000 and excise by £600,000] on a revenue of £154,770,000 which, with an estimated expenditure of £143,954,000, gave him a surplus of nearly £11,000,000. With this sum he proposed, in the first place, to reduce the income-tax from 1s. 3d. to 11d. in the £ at a cost of £8,500,000, and secondly to repeal from the 1st of July the corn duty imposed the previous year, at a cost in the current year of £2,000,000. The few words with which the abolition of the corn tax was announced looked like a complete disavowal of the arguments by which its imposition had been supported, but gave no clue to the real significance of this proceeding.

"Corn," said the Chancellor of the Exchequer, "is a necessary of life in a greater degree than any other article. It is a raw material, it is the food of our people, the food of our horses and cattle, and, moreover, the duty has a certain disadvantage inasmuch as it is inelastic; and what is much worse, it lends itself very readily to misrepresentation. I do not think it can remain permanently an integral portion of our fiscal system, unless there is some radical change in our economic circumstances or it is connected with some boon much desired by the working classes. It was the last tax which was imposed by my Right Honourable friend the late Chancellor of the Exchequer, and I know it was imposed with reluctance, and only under pressing necessity. In my opinion, being, as it is, a tax on a prime necessity of life, it has the first claim to be associated with the large remission of the income-tax of which I have spoken. I therefore propose to remit the corn duty."

The words in which Mr. Ritchie's decision was announced gave no hint of the differences between himself and Mr. Chamberlain in the Cabinet respecting the latter's attempt to retain the duty in order to meet the resolution passed at the recent Colonial Conference, and give a preference to Colonial corn.[1]

The announcement was received with loud opposition cheers, and naturally drew from Sir William Harcourt an expression of cordial approval at the disappearance of an "infamous tax," together with some sarcastic reference to the situation of the Government in "first fighting for this corn tax as they fought last year, and now coming forward and saying that its repeal will be a great boon."

The followers of the Government were no less perplexed; and some of them were greatly annoyed at the abandonment of the tax and the consequent withdrawal from the policy of "broadening the area of taxation," of which so much had been heard a year ago. The corn tax had certainly not proved oppressive, for as the *Times* pointed out, the price of bread was actually lower than when it was introduced. "The basis of taxation," that journal continued, "certainly needs broadening as much as ever. Yet Mr. Ritchie, without any regard to the continuity of policy which we might expect from a Cabinet even when its *personnel* changes a little, abolishes what the Government fought so hard to

[1] See Mr. Holland's *Life of the Duke of Devonshire*, vol. ii., pp. 298-9, and article in *Quarterly Review* for January, 1912, on the Duke of Devonshire and the Liberal-Unionists, pp. 260-1, from which it appears that Mr. Ritchie was not opposed to a retention of the duty, provided it was not utilized to give a preference to Colonial corn.

secure, and ignores all the lofty economic arguments by which they defended their action."

Events, however, still too recent and too momentous in their political results to need more than a passing reference in this place, soon threw some light on this puzzling move. On the 15th of May, before the Finance Bill came up for second reading, Mr. Chamberlain, in a speech to his constituents delivered in the Birmingham Town Hall, launched his celebrated declaration in favour of Colonial preference and retaliation against foreign countries, which gave birth to the "Tariff Reform" movement. The political situation created by this speech immediately became the chief subject of discussion both in Parliament and outside; and after four months, during which it became clear that Mr. Chamberlain was aiming at a complete reversal of the Free Trade system, while Mr. Balfour, in the spirit of his famous avowal (June 10th) that he should consider he was but ill performing his duty, "I will not say to my party, but to the House and the country if I were to profess a settled conviction where no settled conviction exists," was struggling to maintain an open mind and keep the Unionist party together, it led in the last half of September to the resignation of Mr. Chamberlain simultaneously with that of the free trade members of the ministry, Mr. Ritchie, Lord George Hamilton, Lord Balfour of Burleigh, and Mr. Arthur Elliot, followed in October by that of the Duke of Devonshire.[1] In the reconstruction

[1] For these events see Mr. Elliot's *Life of Viscount Goschen*, vol. ii. pp. 248-9, and Mr. Holland's *Life of the Duke of Devonshire*, vol. ii. chap. xxvii. pp. 290-371.

of the Cabinet Mr. Austen Chamberlain took the office of Chancellor of the Exchequer, but before these events the Finance Bill had passed through all its stages. The budget discussions, coming as they did just at the time of Mr. Chamberlain's fiscal manifesto, not unnaturally partook more of the nature of arguments on the respective merits of free trade and protection than of criticism on any particular tax. One of the first discussions in the House, that on a resolution by Mr. Chaplin in favour of the retention of the corn duty, was made memorable by Sir Michael Hicks-Beach's speech on the reasons for his retirement and on his views concerning Mr. Chamberlain's proposals, as well as by the Chancellor of the Exchequer's personal declaration avowing himself "a convinced free-trader." He was now free to argue much more fully in support of his decision to abandon the corn duty, with the result of giving the impression, as Mr. Austin Taylor remarked, that every argument given in favour of its repeal was clearly an argument against its imposition. Both Sir Michael Hicks-Beach, however, and Mr. Arthur Elliot, now Financial Secretary to the Treasury, who had supported its imposition in 1903, maintained not unsuccessfully the consistency of their action on that occasion with the free trade position which they now, in common with Mr. Ritchie, strongly asserted. It would not be germane to the purpose of this work to follow the discussions on the catastrophic developments which now, for the first time in our generation, raised in a practical form the question of the fiscal policy of the country, or to do more than allude to the observation made

on the strange position in which the Government were placed by the spectacle, as Mr. Asquith expressed it, of "ministers posing as propagandists of two wholly irreconcilable views of public policy . . . a practice which, if it were once allowed, would put an end to ministerial responsibility and Cabinet Government." It is, however, not irrelevant to take note of an important deputation of Members of Parliament and others opposed to the repeal of the corn tax, which was received by the Prime Minister in the Grand Committee Room of Westminster Hall on the 15th May. Mr. Chaplin, who introduced the deputation, set out the case of his followers in a speech of unmistakable clearness. He urged that "the milling industry, on the faith of Sir Michael Hicks-Beach's statement for which every one of his colleagues was as responsible as himself, had been practically restarted in England with the most beneficial results to almost every class in the country, and, among others, to farmers and feeders of stock in particular.[1] "The tax," he continued, "was absolutely no burden whatever on the people, and therefore its abolition would not be the slightest relief to them. Yet it was proposed to throw away a revenue of £2,500,000 a year without the slightest return, to strangle almost at the moment of its birth, or, it should be said, at the moment of its re-creation, an already successful addition to the industry of the country, and one which, if it had been given a little more time, would have been a most valuable addition:

[1] Sir Michael Hicks-Beach now admitted in Parliament that 4½d. instead of the 5d. allowed would have been the right figure at which to have fixed the duty on flour and meal, in order to avoid this protective effect.

and to deprive the most distressed and the largest interest in the country of what promised to be a real and substantial advantage."

Mr. Balfour's reply put the case of the Government convincingly enough as an argument from expediency. Admitting that in the previous year, when the tax was imposed, it was hoped it would form part of the general fiscal system of the country, he stated that those hopes had proved to be fallacious. "I should be the last to say," he continued, "that the present Government is deficient in merits and ought not to command perennial confidence, but, as a matter of fact, we know that under the British Constitution party succeeds party, and, as a permanency, this tax could not last. I admit that that is no proof why we should take it off, but if I am right in saying that it would be impossible for our opponents to come in and retain the tax, it is quite clear that there was no hope that Chancellors of the Exchequer of both parties would permanently benefit by the tax, and that those hopes were doomed to disappointment. As soon as it was clear that this tax was to be a bone of contention—a tax which was not objected to simply as a tax, but was a matter of contention between great opposed political forces—it also became clear that it could not be a permanent part of our fiscal system, as the income-tax or the tea duty is. The taxes which it is right to put on in any country depend, and must depend, not merely on paper considerations, not merely on abstract arguments of theoretical economists, they depend, and must depend, on the tastes, the habits, the history, the prejudices of the particular community in which the tax is imposed."

One of the points most strongly urged by the opposition was that as the corn tax was the only indirect tax remitted, and as no further prospect of remission was held out by the Government, much less than a due proportion of relief was given to the poorer classes of taxpayers than was afforded to the richer by the reduction of 4d. in the income-tax. In a full year 2½ millions were to be remitted from indirect, and 10 millions from direct, taxation. Sir William Harcourt spoke of "scandalous injustice" in this connection, Mr. Buxton of the "preposterous proportion" of the relief to the two classes of taxpayers, and Mr. Haldane dwelt on the fact of the greater "ability" of the income-tax-paying class, who owned one half the national income, as invalidating their claim to so large a measure of relief.

Such criticism illustrated once again the difficulties of the House of Commons in discussing the question of the incidence of taxation in the absence of the necessary data or of any agreed standard of equity, however rough. But it also showed a complete disregard of such standards as were applied by the Treasury comparison of the proportions between direct and indirect taxation. Leaving aside the coal tax which could not be ascribed to either head exclusively, additional taxation for the war, according to the Buxton return, produced £71,846,000, of which £39,884,000, or 55·5 per cent., had come from one tax (the income-tax), and £31,962,000, or 44·5 per cent., from the various taxes on commodities. In the budget proposals of 1899–1900, before the disturbance caused by the war, the proportion was 47·9 per cent. direct, and 52·1 per cent. indirect.

In claiming that relief should now be distributed in equal proportion between direct and indirect taxation, the critics were asking for the perpetuation of the proportion established during the period of war strain, which would have obliged any Chancellor of the Exchequer, whatever his predilection in favour of the income-tax-payer, to place an increased proportion of the new taxation on his back. They were disregarding in effect the special consideration which governed taxation in time of war; the historical associations which pointed to the income-tax as a "special implement of war," the considerations of convenience which showed that no old tax can be increased and new ones imposed (or remitted) with so little inconvenience to business as the income-tax. If the war taught any lessons in taxation, it was surely the extreme difficulty of devising a new tax, and especially a tax on commodities in time of war, when a minute inquiry into its consequences was impossible.[1]

These considerations justified the Chancellor of the Exchequer in placing a comparatively large share of the burden of war on the income-tax, but they also entitled him, in view of the special burden which the income-tax payer had borne and would be likely to bear on future occasions, to treat him with special favour in time of peace. The utmost which the partizans of the indirect tax-payer could in fairness contend was that in the arrangements made after the cessation of the war his position

[1] During the budget discussion of 1909 Mr. Lloyd George in defending the new high level of direct taxes, asked why indirect taxation should not be considered as a resource for time of war. The history of the South African War supplies an answer.

should not be relatively worse than before it began. Judged by this standard, Mr. Ritchie showed that there was no legitimate grievance, for on the basis of his budget the proportions stood at 49·1 per cent. for direct and 50·9 per cent. for indirect taxation. The increase for 1903-4 on the budget estimate of 1899-1900 was £13,493,000 for indirect taxation, and £15,364,000 for direct taxation, even after the remission of 4d. in the income-tax and of the 13½ millions indirect taxation (over 4½ millions arose from duties on alcohol and tobacco).

This was the Government case. If we try to push the analysis further on the lines suggested by Mr. Haldane, and adopting his figures[1] as approximating very roughly to the actual condition, what do we find? Four million persons (men, women, and children) out of 42 millions forming the income-tax-paying class, and having an aggregate income of £800 millions or, on the average, £200 p.a. each. On the other side 38 million persons, also with an aggregate income of £800 millions, or £21 p.a. each. The additional war taxes had amounted in three years (in round figures) to £40 millions direct, and £32 millions indirect, and of the latter at least one-third may be held to have fallen on the income-tax-paying class. Therefore we find £50 millions falling on four million persons, or £12 10s. per head, and £22 millions falling on 38 million persons, or 11s. 7d. per head. The non-income-tax payers thus contributed on the average per head less than half the sum which might have been asked of them on a strictly proportional basis.

[1] See, however, estimates on this point, p. 435.

If there is any approach to the truth in such a calculation as this, the angry denunciations of the opposition had very little justification in the facts of the case.

Mr. Joseph Walton proposed the substitution of 1d. for 1s. export tax on coal, and had much support from the members interested in the coal trade. He argued that the tax in question was a violation of the equal incidence of taxation, and that it was a tax imposed upon one section only of a great industry while other equally great and profitable industries had no corresponding tax upon them. "We are told," the same speaker said, "that this is a free-trade budget; but it cannot be so so long as it contains the imposition of a tax which is worse than any protective tax. A protective tax might be imposed for the supposed benefit of the Colonies, home producer, and manufacturer; but this is a tax imposed for the benefit only of foreign producers, and it handicaps British producers." Mr. John Wilson urged that the duty should be an *ad valorem* one, as the cheap Scotch coals were considerably penalized as compared with the higher-priced Welsh coal; and this suggestion was very favourably received by the Chancellor of the Exchequer, who said he thought that if the tax was to be permanent it might be well to consider whether some change should not be made to bring the duty more in relation to the value of the coal. He further undertook to consider carefully the alleged ill effects the duty had had on the export trade in coal, and stated that a commission was then actually sitting to inquire into the whole subject. The existing state of the finances would not, however, warrant

him in abolishing the duty, nor did he really think that any case had been made out for him to do so.

"The question of national expenditure," said Sir Henry Fowler in the second reading debate, "is perhaps the gravest that is raised by this budget." A few words are therefore necessary to draw attention to the speeches of Mr. Gibson Bowles, Sir Edgar Vincent, and Mr. Sydney Buxton, who all of them made observations on this topic. The first-named speaker described it as not only vast but unwarrantable, "as wasteful as it is stupendous." He complained of the additions made to the expenditure each year by way of what was called capital expenditure (for barracks, works at Gibraltar, a Pacific cable, or a Uganda railway); of the practice of bringing in large supplementary estimates, in which "this Government had been a sinner beyond all others," and of the loss of control of the House over expenditure. Sir Edgar Vincent stated that in the course of the last ten years a total of £27 millions had been raised from credit to meet capital expenditure (Naval and Military Works Acts, Uganda Railway, etc.), and submitted that this was absolutely indistinguishable from the extraordinary budgets which in foreign countries had wrought such harm to the finances. He appealed to the Chancellor of the Exchequer to take this matter of the increase of expenditure in hand personally. Three days before, on Mr. Chaplin's amendment, Sir Michael Hicks-Beach, in a memorable speech, had more than hinted that his retirement had been largely due to the failure of his protests against the growth of the normal expenditure of the country, which had been far in excess of the automatic growth

of the revenue. "My protests and my sermons were received with indifference. Had they met with more sympathy I might not now be addressing the House from this place."

The estimates for the normal expenditure, even for the current year, had, he continued, shown an increase which was not justified by anything within his knowledge. "It must have come as a surprise to many persons in this country that nine months after the conclusion of the costly war in South Africa . . . we had still to retain the additional taxes on spirits, on beer, on tea, and on tobacco, and the new taxes on sugar and coal, not to speak of the income-tax at the unprecedented figure in peace time of 11d. in the £." He appealed to the Prime Minister to give the matter his personal attention. It was impossible, in his opinion, for any Chancellor of the Exchequer whatever his ability, whatever his desire for economy, really to check the expenditure of the country unless he had the active, the firm, and the continuous support of the Prime Minister of the day; and he hoped that before the debate was closed his Right Honourable friend would be able to say that "in his opinion, the great growth in the annual expenditure which has taken place in the last few years can be stopped, and that he is determined to stop it."

Mr. Ritchie met these remonstrances in a most sympathetic spirit. "I have heard it stated, I do not know with what truth, that Mr. Gladstone once said that every Chancellor of the Exchequer when he attended a Cabinet meeting should always have his resignation in his pocket. I do not go quite so

far as that, but I do say that a Chancellor of the Exchequer who does not do his utmost to keep economic expenditure and administration to the front is not worth his salt." He agreed that the increase of expenditure was very regrettable, but how it was to be avoided was a much more difficult question. Mr. Bowles had said that the statement put forward as to the expenditure for the current year (£143,900,000) was untrue and misleading to the extent of nearly thirty millions, owing to the omission of £9,700,000 for local taxation, £13,300,000 for appropriations in aid, and £6,800,000 for "capital expenditure." Mr. Ritchie maintained that the balance of opinion was in favour of the existing state of things as regards appropriations in aid, but, speaking as the author of the Local Government Act of 1888, he thought an alteration of the manner of dealing with the accounts in connection with local taxation would be desirable if certain difficulties could be overcome. No change, however, was made till 1907.

Two matters prominently associated with the year 1903 deserve short mention as having an important connection with the national finances. The first was the issue in London in the month of May of £30,000,000 Transvaal Government 3 per cent. stock at par, of which both the principal and interest were guaranteed by the Imperial Government. The applications for the loan were estimated to have reached the colossal sum of £1,174,000,000, and although a large number of these were doubtless, as Sir Edgar Vincent observed, from "stags," there was an enormous amount of genuine public support for the loan, which

was at once quoted at a premium. This speaker, however, considered that this result did not justify optimism. The issue price corresponded to a 2½ per cent. issue at 83, and it was certainly subscribed for to an unprecedented extent by those who did not intend to be ultimate investors (*Parl. Debates*, vol. cxxiii. p. 789).

The second of the two matters to which attention may be called was the Irish Land Act of 1903, a measure which gave an entirely new lease of life to land purchase in Ireland. The subject dealt with by this Act was not a new one, as some £10,000,000 had already been provided for the purpose of Irish land purchase in the eighties under the Ashbourne Acts, and about £13,000,000 under the Acts of 1891 and 1896. But by Mr. George Wyndham's Act of 1903 the scheme was entirely remodelled, and under its provisions as amended in 1909, a further sum of about £50,000,000 has already actually been raised. The present position was set out in a statement made by Mr. Birrell in answer to a question addressed to him in the House of Commons in Nov. 1911, when he announced that the total price of land already sold under the said Land Purchase Acts comes out at £67,839,088, and the area at 6,497,162 acres. He also added that lands of an estimated value of £45,000,000 and of an area of 4,075,400 acres are pending for sale. More than one half of the agricultural area of Ireland has therefore been dealt with under the Acts in question.

MR. AUSTEN CHAMBERLAIN'S BUDGETS.

FIRST BUDGET, 1904-5.

April 19, 1904.

NOTHING could have been less propitious than the circumstances in which the new Chancellor of the Exchequer approached his task. The reconstruction of the Government in the preceding autumn had had no effect in healing the dissensions of the Unionist party; and the Prime Minister's efforts to hold the balance only provoked fresh attacks not only within its ranks but also from the official opposition, which took shape in an amendment moved by Mr. John Morley to the address at the opening of the session. The financial outlook was not encouraging. A wave of trade depression had set in; it was clear that Mr. Ritchie's anticipations had been far too sanguine, and that a deficit would have to be faced. Finally, Mr. Austen Chamberlain's position, in view of the fiscal controversy and the attitude taken up by Mr. Balfour towards it, was delicate in the extreme. It is sufficient to say here that Mr. Chamberlain proved fully equal to the difficult situation in which he found himself, and that his short reign at the Treasury gave him the reputation of a careful and resourceful steward of the national resources.

He began his speech with references both to Sir

William Harcourt and to Sir Michael Hicks-Beach, to whom he "owed his first introduction to national finance," expressing his regret at the announcement which had been made that neither of them would again seek seats in that House.[1] "We shall miss them from our budget debates, in which for so long they have borne the leading part, but I may venture to promise that long after they have left us their memory will be kept green in these discussions by the taxes which they have imposed!"

He then referred to the difficulties with which he was confronted, and to the unfortunate outcome of the past year which had now finally left him with a large deficit. The great wave of prosperity which we had enjoyed for many years seemed at length to have spent its force; there had been a shrinkage of trade, a lessening of employment, a fall of wages; and all these facts had had their influence upon the revenue of the year.

But the deficit which the past year had bequeathed to the Chancellor of the Exchequer was not due solely to the failure of the receipts, for the expenditure, owing to supplementary grants, amounting to £4,488,000 had been about £3,000,000 in excess of the original anticipated outlay. When he took office he found himself already committed to this expenditure caused by the prolongation of military operations in Somaliland and by the inadequacy of the amount provided in the original Navy estimates for shipbuilding. This had necessitated an outlay of £700,000, for which he gladly assumed responsibility, for the

[1] Sir W. Harcourt's death occurred on Oct. 1, 1904, and Sir M. Hicks-Beach was created Viscount St. Aldwyn in January, 1906.

purchase of Chilian warships to restore the balance of our naval strength while our ships were under construction. In addition; customs, excise, death duties, and stamps had all done badly, for, in the aggregate, they had produced £3,140,000 less than the estimates which had been put forward.

The customs revenue, as a whole, was £790,000 under the estimate, and in this particular result the corn tax played an important part, its remission having proved a much more costly operation than had been expected. The repeal of this duty had been finally arranged to take effect only from the 1st July, 1903, and from the three months it had to run £400,000 had been expected. Unfortunately the repayments and the drawbacks proved very much heavier than was anticipated, and instead of a net yield from the tax of £400,000, only £100,000 was obtained, or one-fourth of the estimated amount. "If," said Mr. Chamberlain, "we may judge by the course of prices since, I am afraid (the repeal of this tax) has hardly produced that advantage to the consumer which was anticipated in some quarters." Touching on this topic later in the debate, Sir Michael Hicks-Beach stated that it was with the greatest reluctance that last year he had given his support to the repeal of this duty. He had done so, he added, "believing it to be the lesser of two evils that it should be repealed rather than used as a first step in a policy of preference or protection." But in the light of the existing state of the finances he clearly regretted that the country should have been deprived of the £2,500,000 derivable from the tax which, he said, "I still think, as I told the House

two years ago, when once established would do very little practical harm to anybody, whatever might be said against it in theory, and the repeal of which, so far as I know, has done no good whatever to anybody."

Excise showed a deficiency of the " enormous sum " of £1,150,000, and, even allowing for such factors as the Licensing Act of 1902 and the weather (for the cold summer and mild winter had been equally injurious to the excise revenue), it appeared that a considerable part of the falling-off must be due to the fact that the people had had less to spend. Spirits shewed a deficiency of £330,000 [on customs], and sugar £274,000. But tea and tobacco had done well.

The failure of the death duties by £300,000 and stamps by £900,000 to reach the estimates was primarily attributed to the great depreciation which had taken place in Stock Exchange values, a depreciation which, in some instances, had been of a very startling nature. Consols, after opening the year at 93, had finished it at 88, having once been under 87, and falls of from 20 to 30 points had occurred in many of the leading railway stocks. Speaking generally on the question of the financial depression later in the evening, Mr. Haldane gave what was probably the true explanation of these variations when he said that the financial depression was of a different kind to which we had been used in the past. At other times, he said, when depression had occurred, it had been general in its character, affecting many countries, but of late the depression had been local, and he inclined to the view that it was, in fact, due to a shortage of the purchasing power of the country by

reason of the withdrawal of capital from its proper channels owing to the war.

On finally balancing the year's accounts the net deficit came out at £5,415,000. This sum had provisionally been met by a draft on balances, and, to the extent of £2,800,000, it was now proposed definitely so to dispose of it. This latter amount represented the sum by which the balances had been swollen by the borrowing on account of the South African War having exceeded the amounts required for that purpose. But there still remained a further deficiency of some £2,500,000, and, as regards £1,000,000 of this amount, Mr. Chamberlain had a proposal which can best be explained in his own words: "I do not know," he said, "whether the Committee are aware that all Government stock which has remained unclaimed for ten years is transferred to the National Debt Commissioners. The dividends which have accrued upon that stock are transferred at the same time, and, together with the dividends subsequently accruing, they form an account which is known as the Unclaimed Dividend Account. It is with that account alone I propose to deal. I do not intend to touch the unclaimed stock, but only the dividends which have accrued upon it. The liability on the Unclaimed Dividend Account is a liability for the dividends actually paid—that is to say, for simple interest on the unclaimed stock. The fund itself accumulates at compound interest, and, therefore, quite apart from the fact that it is absolutely certain that a large portion of this money will never be reclaimed, the fund itself is always making a profit, and its assets are always tending

to grow in excess of its liabilities. So large had this profit become in 1866 that in that year stock to the amount of £3,000,000, out of a total sum standing at the credit of the fund of £3,087,375 was cancelled. The assets now again exceed the liabilities. They amounted, in round figures, at the close of the last financial year to £1,760,000, whilst the claims which are annually established against the account have averaged no more than £4,000 or £5,000. It is clear, therefore, that it is perfectly safe once more to have recourse to this fund now, as was done by Mr. Gladstone in 1866; but instead of cancelling the stock I propose to realize it, as opportunity offers, to the extent of £1,000,000, and to credit the proceeds to the Balances. The only difference is that, instead of writing off a liability, I shall add to our available assets." As to the sum of about £1,500,000 which still remained no express provision was made, the Chancellor of the Exchequer being hopeful that the coming year would supply him, if not with the whole, at least with a substantial part thereof. "If," he remarked later in the debates on this topic, "I cannot restore the whole of the £1,500,000 by which the balances are depleted, then the remainder must wait for restoration in the subsequent year. That is a course in accordance with precedent, and a course which is dictated by the circumstances of the moment to anyone in my position. Taxation is very high, and I am obliged to raise it still higher. An emergency has to be met, and to the temporary nature of the emergency I must have regard in making provision, not disturbing any trade or industry or burdening the present year out of all proportion to the per-

manent needs of the country. I ask the Committee to support me in what I feel is no popular task in imposing fresh taxation to the extent that is necessary fully to cover the anticipated deficit of the current year, and to leave a large margin towards wiping out the remaining deficit of last year. But the Chancellor of the Exchequer would not be justified in asking the Committee at a moment like the present to impose a very large addition to taxation in the current year, with the knowledge that it would not be required for the ordinary expenditure of the subsequent year." It may here be noted that the actual surplus of the year 1904-5 came out at £1,414,000, thus providing almost exactly the amount required.

For the coming year it was estimated that, on the existing basis of taxation, a total Exchequer revenue from all sources of £139,060,000 would be forthcoming, and the expenditure being put at £142,880,000 there was accordingly a sum of £3,820,000 to be found without either allowing any margin for contingencies or making any further progress towards the restoration of the depleted balances.

In some quarters it was suggested that the money should be found by a suspension of the sinking fund, but that course was dismissed by the Chancellor of the Exchequer, who thought that to take such a line of action at that moment would be doubly bad policy in view of the existing low price of Government securities, and of the knowledge that for several years to come the Government must be borrowers in pursuit of their statutory obligations under the Naval and Military Works Acts, for Irish Land Purchase, and for other purposes. It was accord-

ingly decided that additional taxation must be imposed to meet the deficit, and it was proposed to distribute it thus :

(1) £2,000,000 from the income-tax, by the addition of 1d. on that tax.
(2) £2,000,000 from tea, by the addition of 2d. per lb., and
(3) £550,000 from tobacco by various rearrangements of the duties on this article.

This addition of £4,550,000 left a surplus for the year of £730,000, a somewhat larger margin than it was customary to allow, but, as explained above, it was to this source that Mr. Chamberlain looked for the further restoration of the balances. " Additional taxation," he concluded, " is never popular, and the resources to which I can have recourse in present circumstances are limited. I have done my best with the means at my disposal, and I appeal with some confidence to the Committee to support proposals which I believe to be sound in themselves, necessary and adequate for the maintenance of our high financial credit, and framed in harmony with our existing financial system and with due regard to the just interests of all classes of the community."

Mr. Chamberlain's speech was received not only with favour on account of its clearness, but also with obvious relief at the impartiality he had maintained on the fiscal question. " A more lucid and, I think, a fairer speech has seldom been made by any man occupying the position," said Sir Henry Fowler. Other speeches which were made on the budget night itself and on the following days, in the course of

passing the necessary resolutions, were accordingly friendly in tone; and shewed appreciation of Mr. Chamberlain's courageous action in maintaining the sinking fund.

The announcement of the appointment of a departmental committee to inquire into the question of evasion in the income-tax, allowance for wasting assets, charges to capital and other points, led to some interesting discussion. Mr. Haldane thought that the terms of reference were not sufficiently wide, and that the whole question of the income-tax required reconsideration; and he repeated his opinion that the House and the nation were very much in the dark as to the incidence of taxation. He would "like to see a Royal Commission containing the very best statisticians and economists of the country, with some of the first men of business," set to work to produce a "thorough report" on the subject of the "distribution of the national income, and the way in which taxation fell upon it." Mr. Chamberlain shewed much more sympathy with the idea than any of his predecessors, but nothing unfortunately came of his promised consideration, and the imposition of taxation has since proceeded in the somewhat empirical fashion to which the House of Commons had become habituated.

The speeches both of Mr. Ritchie and of Sir Michael Hicks-Beach were of interest. The former, as having been responsible for the estimates and for the subsequent additions to them, felt called upon to offer some defence which amounted, however, merely to a contention that the falling off of the revenue, due as it mainly was to a spell of bad trade, was of a

character which could not have been foreseen by himself and his advisers. Sir Michael Hicks-Beach dwelt, not unnaturally, in severe terms on the want of caution shewn in the reduction of taxation last year by so large an amount, when the retention of one penny of the income-tax and of the corn duty would have saved all difficulty. He animadverted so strongly on the annual increase of expenditure in recent years as to produce the retort from Mr. Chamberlain that there was "some inconsistency in his Right Honourable friend of all men in the world, who was Chancellor of the Exchequer in the years of greatest expenditure, admonishing him, of course in the kindliest spirit," on the subject. But Sir Michael's remarks struck the keynote of these discussions which shewed a most wholesome sense of alarm at the necessity, in the second year of peace, of again increasing taxation which had been only partially reduced from a war level in the preceding year.

On the second reading, accordingly, a full-dress debate lasting over ten days took place on an amendment of the leader of the opposition, Sir Henry Campbell-Bannerman, to the effect that this House, having regard to the heavy burden of taxation proposed by this Bill in a time of peace, deems it necessary to declare its condemnation of the large and continuous increase of the national expenditure in recent years. Not only was there genuine uneasiness at the figures of expenditure with which by constant repetition the House was becoming familiar, but it was perceived that they were likely to play a part at the General Election which could not be long delayed. On budget night Sir Michael Hicks-Beach

had stated his belief that if expenditure continued to grow as it had done for some years past the "burden of the tax-payers will become so great that there will be a reaction in this country which will not only sweep away us who are responsible for it, but will do very much worse. It will diminish expenditure to such an extent as to destroy that efficiency which those who are responsible for the present extravagance—as I believe it to be—are always telling us it is their one desire to maintain" (*Parl. Debates*, vol. cxxxiii. p. 591-2). "Since his quarrel with the Government had been serious," said Mr. Winston Churchill, "he should like to say that it had been solely and entirely on the question of finance." . . . "Extravagant finance would, in the long run, drag down this powerful government to the ground" (*Parl. Debates*, vol. cxxxiv. p. 1482). "The financial position was worse," said Sir Edgar Vincent, "than at any time during the last fifty years. . . . Their finances were out of order, and must be put right."

Nor was the regular opposition, among whose watchwords retrenchment had always been kept to the fore by Sir William Harcourt, wanting on this occasion in denunciation and warning. Sir William himself, preaching on the text that expenditure depends on policy, made one of his last Parliamentary appearances; and Sir Henry Campbell-Bannerman devoted his speech mainly to an appeal to the Government to cultivate friendly relations with other powers, and by friendly negotiations to "secure for the States of Europe that immunity from the intolerable burdens of naval armaments, which can

be secured by no height to which jealousies and rivalries and insane competition can carry us." The moment was not ill chosen for such an appeal. A change in the direction of our foreign policy had relieved all tension as regarded France and Russia, in defensive preparations against which powers Sir Michael Hicks-Beach had grudgingly poured out his "untold millions"; and the "Dreadnought" competition with Germany had not yet begun to take its place as if to prove that expenditure was an essential element in any policy adopted. Mr. Chamberlain and Mr. Victor Cavendish alike demonstrated the necessity of the proposed expenditure on armaments and controverted the idea that it was excessive; and the latter reproached the opposition and the House generally for their failure to avail themselves of the opportunity of exercising pressure in the discussions on the estimates. Such taunts coming from the Executive Government with whom the real control and responsibility lay were perhaps, as Mr. Edmund Robertson said, "unfair"; but they emphasized the growing powerlessness of the House of Commons, even if it had the will, in the matter of criticism and restraint of expenditure; and pointed to the truth that radical changes were required in the relative positions of the House of Commons and the Treasury and Executive Government if Parliamentary discussions, such as those which have been commented upon in these pages, were to serve any but political and electioneering purposes. Apart from changes which only the extremity of need is likely to bring about, there is nothing to rely on but the voice of the constituencies, and history has yet to show an

example of a democratic electorate insisting on economy. Even in the House on the present occasion, when there was a consensus among leading members of all parties on the pressing need for a parsimonious administration of the finances, a "count," which Sir George Bartley remarked that he had never before known in a budget discussion (which was also virtually a vote of censure on the Ministry), "seemed to prove the hollowness of much of the cry for economy."

From the moment of the second reading, lengthy debates took place on each of the budget proposals, the plan of utilizing the unclaimed dividend account to strengthen balances alone escaping protracted criticism, though some speakers contrasted with approval Mr. Gladstone's action in employing this fund for the extinction of debt. There were repeated motions for the reduction of the tea duty which, it was urged, fell very hardly on the very poorest, and especially on the poor Irish. A proposal was made to exempt Ireland altogether from the operation of the duty, but this was rejected. A special day was, however, given for the ventilation of the alleged Irish grievance of general over-taxation, and the debate which ensued was of interest, producing as it did, first, a suggestion from Mr. Waldron that Ireland should make a fixed Imperial contribution and be left at liberty to manage the rest of her finances herself; and, secondly, a promise from the Chancellor of the Exchequer that he would consider favourably any proposals for the more economical working of Irish administration, and would consent to the allocation of any money so saved to development and kindred purposes.

The proposed alterations in the tobacco duties, which on the budget night had passed almost without comment, came in for some very serious consideration in the course of the Finance Bill. Sir Michael Hicks-Beach had, it is true, at the very outset given a word of warning drawn from his own experience as to the danger of attempting to deal with the tobacco industry, which, he said, was a most sensitive one; and it soon became apparent that the whole topic was of an exceedingly involved and technical description. Not only were there questions of prices, and of the operation of drawbacks to be considered; but the different processes through which the tobacco passed and the variety of its classes all tended to complicate the matter, for it must be remembered that there were separate rates for cigars, cigarettes, snuff, and other manufactured tobacco, as well as for the raw leaf itself. Then all the actions, reactions, and counter-reactions had to be looked at, which took place by the operation of the one or the other of these different factors.

Of the £550,000 which the Chancellor of the Exchequer hoped to realize from his revision of these duties, he had estimated that a small additional charge on cigars and cigarettes would provide him with about £50,000, the balance of £500,000 being wholly attributable to the anticipated yield of a new duty of 3s. 3d. per lb. introduced on tobacco stripped before importation.

Stripped tobacco and the raw leaf had previously paid at a uniform rate of 3s. per lb.; but the principle of the whole scale being that there should be a rate for raw tobacco, with a correlative but increased rate

for each form of the manufactured article, it had, the Chancellor of the Exchequer considered, always been an anomaly that the first process of manufacture or treatment which the leaf went through should have been marked by no corresponding increase in the scale. The process in question was that of stemming or stripping the leaf—that is, separating the less valuable stalk from the more valuable portion of the leaf—and the omission to mark this stage by a separate rate of duty had, Mr. Chamberlain said, resulted in the transference of a great portion of this work from the United Kingdom to other places; for according to the latest return, the tobacco entering the country stripped before importation had increased from 43 per cent. in the sixties to 77 per cent.

This fact alone, he argued, showed that by our customs regulations we had actually driven employment away from our shores.

The discussion accordingly focussed itself on the duty of an additional 3d. per lb. in respect of stripped tobacco; and the question as to whether it was right to differentiate between strips and the whole leaf, and whether, if so, the difference proposed was proportionate to the difference between the values of the two articles, soon became a subject of almost endless debate which in the end assumed a somewhat exaggerated importance. It must, however, be remembered that the question of a tariff was at that moment very much to the fore, and that this was the only one of the budget proposals which gave any loophole of attack on the ground of its being protective, although as to the exact degree in which it was supposed to offend in this respect there was a

great difference of opinion. But once this argument was launched, the tax found many opponents simply on the ground that it was bad in principle, or that, as Mr. Gibson Bowles suggested, it marked "the opening of a new rill to fill the fiscal river." Mr. Winston Churchill took the same line in condemning it as being vicious in principle. "It might," he said, "be protective with a hypodermic syringe, but it had undoubtedly a protective flavour about it." Other opponents shewed that the total value of the industry, if no more strips at all were imported, would not exceed £60,000 a year, for the sake of which small sum the tobacco trade was, as they alleged, to be disorganized and a first sample of protection introduced.

The attacks finally took a personal turn owing to an insinuation made by two prominent members that the Chancellor of the Exchequer had been influenced in this measure by the advice of interested parties. This accusation was naturally provocative on more than one occasion of heated discussion, from which it need only be said that Mr. Chamberlain emerged with less damage than his critics.

On the general question he maintained a spirited defence of his proposal: he joined issue particularly with the statement that the stripping of tobacco was unskilled labour. The cost of the process had, he said, consequently been grossly understated. Further, he was most emphatic in declaring that the tax was not imposed, as his critics clearly suggested, with any view of bringing back to this country, by the agency of our fiscal system, employment which by natural courses had been diverted else-

where; but that the primary reason for the action he was taking was to obtain revenue. With a view, however of avoiding, as far as possible, the penalization of any section of the trade, he ultimately made the concession of granting a rebate from the new duty of 1½d. in the lb. on all "stripped" tobacco which had been either deposited in bond, or which was in an importing vessel bound for the United Kingdom, before the 20th April.

Lengthy debates also took place on many other topics, notably on the alleged inadequacy of the sinking fund and on the coal tax, a renewed attempt being made to reduce this tax from 1s. to 1d. On these two questions the speeches were only an echo of what had been heard in recent years, but so protracted did the discussions become that it was not until the 28th July that the Bill passed its third reading.

The delay in sending the Bill to the Lords, which ensued from the exceptionally full discussions in the Commons, created a curious situation. To avoid any irregularity in the collection of taxes, which the budget resolutions had only authorised until the 1st August, it was considered imperative that the Royal assent should be obtained to the measure by that date. As it was not until Friday, the 29th July, that it came up for consideration in the Lords, there was certainly much point on the vigorous protests that were made against the attempt of the Government to compel the Upper House to pass the measure through all its stages in the course of a few hours. "We all know," said Lord Spencer, "that we in this House cannot amend a Money Bill, but we

have a perfect right to discuss it and a full right to throw it out if we so will. I need hardly say that I am not going to propose that the Finance Bill should be thrown out, but I do claim the right of this House to discuss a measure of this great importance." To such an extent did the Lords then proceed to discuss the Bill that it did not pass its third reading until too late an hour to receive the royal assent on the 29th July; and it was not, indeed, until the 1st August (conveniently, as it happened, a Bank Holiday) that the Bill actually became an Act of Parliament and passed into law.

The country was thus just saved from a situation which had a momentary appearance of developing into a constitutional difficulty.

MR. CHAMBERLAIN'S SECOND BUDGET, 1905-6.

April 10, 1905.

THE year 1904 which had begun in a very unsatisfactory manner from a financial point of view showed, as the months passed by, a distinct tendency to improve, and was characterized in its latter portion by a gradual revival from the depression which had followed the South African War. Although this recovery came too late to produce any marked effect on the revenue, it was, nevertheless, a satisfactory feature of the year that the additional taxation provided by the 1904 budget had proved more than sufficient to re-establish an equilibrium between the expenditure and the receipts, a fact which enabled Mr. Austen Chamberlain to open his second budget

under much happier auspices than those under which he had laboured in the previous year. His position in the year 1905 was, however, still a difficult one in view of the tariff controversy—a topic which had again formed the basis of a preliminary skirmish in the House of Commons during the first week of the 1905 session, on the debate on the Address.

Referring to the completed results of the past year, Mr. Austen Chamberlain pointed to the remarkable approximation which had occurred between the revenue which had actually been collected (£143,370,000) and the estimate (£143,390,000). This close correspondence in the aggregates had, however, been accompanied by an equally remarkable divergency in many of the details of which the result was composed, the chief of which consisted in a decline of £1,370,000 in the combined customs and excise revenue from beer and spirits, and an increase of £1,250,000 from the income-tax. The decline in the growth of revenue from alcohol in its different forms had now been going on for several years. The consumption per head of both beer and spirits was less in 1904 than in any one of the previous fifteen years, and since 1900 the decline had been continuous. This fact gave rise to some interesting comment. The Chancellor of the Exchequer was clearly of opinion that we were "face to face" with a change in the habits of the people, of which we should have to take account in any reconstruction of our financial system. The money formerly spent in drink was being spent in railway excursions, music hall entertainments, etc. "I do not doubt," he said, "that with reviving prosperity our revenue

from this source may again regain some of its old elasticity, but I do not think we can count upon it in future to bear so large a portion of our expenditure as it has borne in the past. That is a factor with which we shall have to count. It is a change which may bring unmixed satisfaction to nearly every Member of the House except the Chancellor of the Exchequer, but it leaves a gap in our financial system which we shall have to find other means of filling." As to the great gain in the income-tax, which practically balanced the deficit from alcohol, Mr. Chamberlain explained that it was due, in the first place, to his having over-rated the decline which was to be expected from the inclusion in the average on which a large portion of the tax is assessed of what was, on the whole, a bad year in place of what had been a very good one; and, in the second place, to his having made no allowance for the increased efficiency of collection which had been going on for some years, but which had been undoubtedly largely stimulated by fresh instructions issued by the Board of Inland Revenue in the previous September.

Passing rapidly through the various items, some of which were slightly up and some slightly down on the estimates, it was found that the previous year had finally yielded an Exchequer revenue of £143,370,000 which, compared with an expenditure of £141,956,000 (£924,000 less than the total budget and supplementary estimates)[1] left an actual surplus of £1,414,000. For the coming year an Exchequer

[1] Adding for local taxation £9,813,000 and capital expenditure £8,069,000, the total aggregate expenditure of the State had been £159,838,000.

revenue of £144,004,000 was looked for on the existing basis, and the expenditure was put at £141,032,000 (a reduction of £925,000 on the Exchequer issues for 1904-5); leaving a balance of £2,972,000 at Mr. Chamberlain's disposal. The reduction in the expenditure was made possible, in spite of considerable increases in some items such as civil services and post office, by a reduction of three and a half millions in the Navy estimates, or nearly 10 per cent. on the previous year's estimate. They stood at £33,389,000 instead of £36,889,000. This reduction, which was announced on the 2nd of March (before the budget) and was scarcely, if at all, alluded to in the budget discussions, was the outstanding feature of the year's finance; and it seems to have been accepted in the discussion on the Navy estimates and in the press (with the notable exception of the *National Review*) without alarm as inspired by Sir John (now Lord) Fisher, whose schemes of reorganization were believed to aim successfully at combining a maximum of efficiency in changing conditions with economy in expenditure. The absence of criticism at the time is noteworthy in view of the reproaches subsequently levelled at the Unionist Government, when German competition became increasingly severe, for having sacrificed the Navy to electioneering considerations.

By way of preliminary to his proposals as to the surplus Mr. Chamberlain gave a useful exposition of the National Debt. This debt, he demonstrated to the Committee, was made up of three different categories: first, the funded debt, including in this our estimated capital liability in respect of

terminable annuities; secondly, the unfunded debt; and, thirdly, a certain amount of miscellaneous debt incurred for the purpose of public defence or improvement, such as naval and military works and public buildings and the like, provision for the service of which, both as to sinking fund and interest, is charged upon the votes of the department which has expended the money. The aggregate amount of the whole of the three kinds of debt came, on the 31st March 1905 to £796,736,000, of which £755,072,000 belonged to the first two categories and was classed as "dead-weight" debt. Of this latter amount £71,633,000 represented unfunded debt, that is debt the discharge of which on a fixed date was part of the bargain with the lender, but for the redemption of which within its currency no specific provision had been made by Parliament. This unfunded debt had increased to its then proportions from the comparatively small sum of £8,000,000 in 1899, and its diminution, coupled with any possible increase in the sinking fund, was looked upon as the thing most calculated to restore the national credit to its former high level, and to ease the financial position. "If," said Mr. Chamberlain, "it is right and just to borrow largely in the emergency of a great war when the honour and even the existence of the Empire are at stake, it is upon the condition that, when peace is re-established, we take the first opportunity in our power to restore our national credit and to lighten the burden of debt which we hand on to our successors."

The moment had now arrived when it had become possible to take some definite steps in this direction,

for £14,000,000 of Exchequer bonds fell due in December, 1905, and although the Treasury had full power, should it be so desired, merely to renew them for another period, the Government decided that this was not a wise course to pursue but that steps should be taken to provide for their redemption by a regular process and within a reasonable time. Their proposal, which had both these objects in view, was in the nature of a limited funding operation, and containing, as it did, a certain element of novelty from a British point of view it can best be explained in Mr. Chamberlain's own words. "By the sinking fund," he said, "already at our disposal, and by means of the repayments lately received from the Transvaal on account of work executed upon their railways and stores handed over to them at the end of the war, I hope to be able to extinguish four out of these fourteen millions. There will then remain ten millions of bonds to be dealt with in December next; and in order to enable me to pay them off I propose that new bonds of an equivalent amount shall be issued with a currency of ten years (and this is the important consideration to which I desire to direct the special attention of the Committee), that one-tenth of the total issue shall be drawn and repaid each year. And in order that the sinking fund which I attach to these new bonds shall not trench upon the sinking fund we have at present available for the redemption of debt, I propose that the fixed debt charge shall be increased by £1,000,000 this year, so that it shall stand at £28,000,000 instead of £27,000,000. By this means we shall have redeemed this portion of the debt within a comparatively few

years and without any of the disturbance which accompanies a sudden operation upon a large scale; whilst, by attaching to the new bonds a sinking fund of the amount and character I have described, we shall render them more attractive to investors, and be able to issue them upon better terms than would otherwise be available."

Probably the best defence of this proposal was that further borrowing on Consols or by means of a new issue would have the effect of depressing prices still further below par. Owing to this employment of £1,000,000 of the surplus, there remained a sum of £1,972,000 to meet contingencies and for further reduction of taxation, and as this was not sufficient to warrant the reduction of 1d. in the income-tax, it was decided to remove, from the 1st July, 1905, the additional 2d. on tea which had been imposed the previous year, this concession costing £1,550,000 and thus leaving a final estimated balance of £422,000. The Chancellor of the Exchequer, who was profuse in his regrets at being unable to touch the income-tax, gave three reasons for selecting tea as a subject of relief. First, it was the only article then taxed at a higher rate than during the war, secondly, it was an article of almost universal consumption so that everyone would practically benefit by the abatement, and, thirdly, it was an article supplied almost entirely from British Colonies and dependencies. "Last year," Mr. Chamberlain concluded by saying, "it was my duty to impose an increase in our burdens; this year the small measure of relief which it is in our power to afford falls, I am afraid, far short of the expectations which have been formed in many quarters.

Such times as these do not lend themselves to the production of what are known as popular budgets. But in the proposals which I have laid before the Committee on behalf of His Majesty's Government, we have sought not our present popularity, but the permanent interest of the country. By adopting these proposals the Committee will do all that is in their power to stimulate the movement of recovery which is now visible, to enhance our national credit, and to strengthen the confidence rightly felt in the soundness and stability of our national finance."

Mr. Chamberlain's clear and able statement, which had taken well under two hours in delivery, and was therefore, as Sir Henry Campbell-Bannerman remarked, "perhaps the shortest that we have listened to for many years," was deservedly praised on all hands and not least by Members of the opposition who saw, as Mr. Macrae expressed it, that "it had rather taken the wind out of their sails." Disappointment was indeed expressed in some quarters that the income-tax payer was not to be relieved, but it was generally conceded that a portion of the surplus could not have been put to a better use than to the reduction of debt, some Members even regretting that the Government had not gone still further in this direction. One of the merits of Mr. Chamberlain's speech in contradistinction to those of his predecessor who had "said a great deal about economy but done nothing," was as Mr. Herbert Samuel observed, that "it said not a word about extravagance." But the debate on budget night resolved itself largely into a consideration of this now fashionable topic in connection with discussion on the position of the debt. Sir Edgar

Vincent and Mr. Gibson Bowles commented on the improvement in the form of the financial statement laid before the Committee, which gave for the first time the various items as to the revenue assigned to the local taxation accounts and the expenditure charged against capital, necessary for a comprehensive view of the exact financial situation. The former speaker maintained the view he had often before expressed that the debt arising from the various Works Acts was not really distinguishable from ordinary borrowing, and contended (as did Mr. Samuel later in the debate) that the borrowing of £9,000,000 under these Acts practically extinguished the reduction to be effected by the sinking fund. Mr. Bowles considered that these "so-called capital liabilities" were just as much "dead weight" as the funded debt, and even more objectionable. This debt, however, as Mr. Chamberlain reminded a subsequent speaker, had its own sinking fund—an abnormally high one—which did not trench in any way on the sinking fund of the national debt. Mr. Bowles finally described the budget as a most satisfactory one, and commended the addition of £1,000,000 to the fixed charge as an act of courage and propriety and the soundest finance.

The passing of the necessary resolutions, which were disposed of without any difficulty, shewed that the chief point of interest in the proposals was that connected with the reduction of debt. It is true that these proposals had an element of novelty, for it had hitherto not been customary in this country to attach a specific sinking fund to any portion of our debt. But, as was pointed out by Sir Frederick

Banbury later in the debate, the system was an extremely common one abroad and was practised by every Government in Europe and in all parts of the world, the only Government not to do so on its own particular stocks being in fact our own. We had, however, adopted this scheme in regard to the Egyptian Loan of 1885 and the Greek Loan of 1898, which we had guaranteed, and the effect that a definite plan of amortization had had upon these loans, in regard to the market value of the amounts still outstanding, had been very beneficial.

Mr. Chamberlain's action on this occasion indeed suggested as a question for serious consideration whether, if the State should in the future require to raise any considerable amount of fresh capital, it would not be well (subject, of course, to making satisfactory arrangements for the redemption of all existing debt) to cease altogether the further issue of Consols; and to make instead each loan a separate debt with a separate title, bearing interest at a rate to be fixed in the light of the market conditions obtaining at the time of flotation, and having a definite scheme of amortization within a fixed period by means of annual drawings. This was the course adopted with the Exchequer bond issue in 1905, when the rate of interest was fixed at $2\frac{3}{4}$ per cent. and £1,000,000 per annum was definitely allocated for redemption purposes. To suggest, as was done by some Members, that the scheme savoured of a gambling transaction, and to describe the bonds as lottery bonds (Mr. Bowles) was certainly a gross abuse of language, for as events have proved a holder of any of the bonds still undrawn retains the possession

of a security now actually worth more than its original cost, whereas Consols, which averaged a price of $89\frac{13}{16}$ in 1905, have steadily dropped since that date to more than 15 points below that figure.

The second reading of the Finance Bill, which took place on the 16th May, was marked by a discussion on the financial relations between Great Britain and Ireland, Mr. Clancy opening the proceedings with a long speech in which he raised the question of the "unjust financial treatment to which Ireland had been for many years subjected."

The discussions on the income-tax, both in these and the preceding years, had revealed a growing movement in favour of graduation. Sir Michael Hicks-Beach, backed by Sir William Harcourt, had always during his reign at the Treasury steadily resisted any fundamental change in this direction on the perfectly sound ground that any real graduation was incompatible with the central principles of the British income-tax, that of collection at the source. But he had himself been responsible in 1898 for a useful extension of the income-tax abatements, and in 1904, on budget night, he had given it as his opinion, in view of the high rate at which the income-tax seemed likely to stand in future, that the committee promised by Mr. Ritchie, appointed by Mr. A. Chamberlain, and subsequently presided over by Mr. Ritchie, to enquire into certain points in connection with the administration of the tax, might perhaps be empowered to examine the question of the practicability of some extension of abatements or some kind of graduation "which might make the income-tax on a certain poundage less heavy upon

the most heavily taxed and rated class of people in this country"—those with incomes between £700 and £2000 per year—"if not more heavy upon those who are richer." Mr. J. H. Lewis and Mr. Trevelyan in the same session went a good deal further, and brought forward proposals for the additional taxation of incomes over £5000 per annum, very much on the lines of the super tax of 1909. Sir George Bartley, while theoretically approving of graduation, insisted on the practical difficulties of introducing it and suggested, in company with the Chancellor of the Exchequer, that substantial justice was done by the graduation of the death duties. Mr. Herbert Samuel vigorously combated this view, pointing to the amount of graduation actually effected by the system of abatements and to the example of foreign countries, and incidentally shewed, quite truly, that the effect of the death duties was rather in the direction of differentiation than of graduation. "On both sides of the House," he said, "they were agreed that differentiation was necessary and desirable. A man who had an earned income more or less precarious, dependent on his health and capacity, was in a different position from a man whose income was derived from land or from capital and was a continuous income. And the former had to lay by money for future eventualities and for his children, while the latter had his land or his capital behind him, and was not obliged to save. It was necessary that the income of the first should be taxed less than the income of the second. That was done by death duties. A man who inherited an estate which had paid duty to the extent of 8 per cent. lost 8 per cent. of his capital

and therefore 8 per cent. of his income. This was equivalent to an income-tax of 1s. 7d. in the pound, so that, practically, he paid 2s. 7d. in the pound on his income, while the recipient of earned income of an equal amount paid only 1s. The death duties no doubt applied the principle of graduation; but the principle of graduation ought to apply to earned income just as much as to unearned incomes."

In 1905 the same questions came up and were discussed on much the same lines. It was assumed without very much reason that a 1s. income-tax, even with the existing abatements, must of necessity be intolerably burdensome on some classes of income-tax payers though opinions differed as to which class suffered most; and German analogy, if it had been studied, would hardly have borne out the contention that the lower middle classes were over burdened in comparison with others. Few speakers distinguished as clearly as Mr. Samuel had done between graduation and differentiation (the first discriminating between the *amount* of income, and the second according to its *character*); and Sir George Bartley, ignoring on this occasion the differentiation effected by the death duties which he had acknowledged on previous occasions, insisted on the necessity of a separate and different treatment within the income-tax of spontaneous and industrial incomes. There was indeed much to be said for the opposition which the Chancellor of the Exchequer offered, as he and his predecessors had done before, to any alteration in the basis of the tax which would affect its simplicity and the facilities for collecting it. But public opinion was ripening in favour of change,

and one of the first measures of Sir Henry Campbell-Bannerman's administration was the appointment of the Select Committee which investigated these questions in 1906, and led to legislation which will be considered in its proper place.

The final progress of the Bill through the Commons, where it was read for the third time on the 5th of June, was no less rapid than that of the previous year's Bill had been slow, and well within three months of its introduction it was duly passed on to the statute book. Its passage through the Lords was marked by yet another debate on the general question of increasing expenditure, and by criticisms which certainly shewed inadequate appreciation of the merits of this budget as the first real move for many years towards reduction both of debt and expenditure. Lord Avebury, for instance, urged that the enormous figures which our national outlay had reached had caused us to lose to a considerable degree "the elasticity and financial reserve which were so great a strength to the country." Lord Welby, who considered that the same cause "had checked consumption and had hampered the springs of industry," denounced the budget as a "budget of drift"; and he was followed by Lord Lansdowne who, on behalf of the Government, stated with undue modesty that it was a "transition" budget, intended to deal with a period of transition which must take place at the end of a great war and before the national finances revert to their normal condition." As things turned out this was to be the last opportunity for many years on which a Unionist minister was to have the handling of the national finances.

MR. ASQUITH'S BUDGETS.

FIRST BUDGET, 1906-7.

April 30, 1906.

THAT the Unionist Government should have survived over five years from the date of a general election through the concluding stages of a (financially) great war and the internal dissensions caused by the fiscal controversy was a remarkable proof of its inherent strength; but in the autumn of 1905 Mr. Balfour's position had become untenable and in December he resigned, Sir Henry Campbell-Bannerman succeeding him as Prime Minister; and in the January following the Liberal Ministry was confirmed in office by a sweeping victory at the polls. In the new Cabinet Mr. Asquith took the part of Chancellor of the Exchequer, and on the 30th of April he made his first budget statement, carefully explaining that his field of action on this particular occasion was to a large extent limited and circumscribed owing to his own recent accession to office.

As regards the past year the estimates both of revenue and expenditure had again been falsified to an unusual extent, but "happily in each case the error had turned out to be on the right side." The revenue (£143,978,000) had exceeded the estimate by £1,524,000, and the Exchequer issues, £140,512,000,

had fallen short of the estimated expenditure (including £172,000 for supplementary estimates), the diminution having been due to ascertained and estimated savings in the supply services, more than half of it being due to the War Office. The result was a realized surplus of £3,466,000. Mr. Asquith proceeded to explain that the growth of revenue was attributable to the fact that the year 1905 was a year of "slowly but steadily growing prosperity. The oversea trade had reached figures which had never before been paralleled," and the improvement was general throughout almost all the great industries of the country, building and coal mining being the principal exceptions; and all the other indications, railway earnings, bankers' clearances, wages, and unemployment figures were favourable (*Parl. Debates*, vol. clvi. p. 279-280).

The only particular result to which Mr. Asquith referred at any length was the yield from alcohol which shewed a further decline of £607,000; and the conclusions to which he came from these figures and from the results of recent years were very similar to those which Mr. Austen Chamberlain had emphasized in the previous year.[1] "We are here," he said, "in

[1] The diminution dated from 1899-1900, since which time the population had increased between 2,000,000 and 3,000,000. The figures are those given in the budget speech.

	1899-1900. GALLONS.	1905-6. GALLONS.
Wine retained for home consumption	17,150,000	11,800,000
Foreign spirits	9,350,000	6,780,000
Home-made spirits retained for consumption	38,716,000	32,490,000
	BARRELS.	BARRELS.
Beer retained for consumption in United Kingdom	36,500,000	33,500,000

face of a change that has affected all strata of society; indeed, the decline in the consumption of wine is more marked than in that of spirits and beer. To what is the change due? Let me say at once I can trace no causal connection between the decreased consumption and the comparatively small increase of taxation proposed in 1900 and continued since. The main reason, I hope and believe, can be found in the growth of temperance principles and the increased power of competing attractions; but I must add for myself that I doubt whether it is safe to base any very wide generalization as to a lasting change of social habits on the experience of six or seven years, which have been marked by unprecedently large expenditure on a great war, by an enormous increase in the burden of taxation, and by, at any rate, a very great curtailment of spending power of almost every class of the community. But for the moment, at any rate, no Chancellor of the Exchequer can count any longer upon this as a source of indefinitely expanding revenue. The days in which it used to be said we drank ourselves out of the Alabama claims are days which are over, and do not seem likely to return." It was chiefly to a series of good yields from direct taxation (especially the income-tax) that the net increase in the revenue was attributed; although a very large contribution to the surplus had come from the post office and telegraph services, which between them had produced nearly £500,000 over the last budget estimate and more than £1,000,000 over the receipts of the previous year. These figures were specially referred to as affording a very satisfactory indication of the general

progress of business in the country, though to some extent they were due to exceptional causes such, for instance, as the general election, which led to a large growth in the volume of postal and telegraph business, and to the growing popularity of the picture postcard.

The total revenue paid into the Exchequer amounted to £143,978,000, and adding £9,901,000 from customs, excise, and estate duties paid to the local taxation accounts, the total income collected by the State amounted to £153,879,000. This system of the interruption and earmarking of particular Imperial taxes for local purposes was, said Mr. Asquith, "fallacious and misleading." In his opinion it complicated and confused the national accounts and, he added, urgently called, as did all the relations between Imperial and local taxation, for prompt and thorough review.

The prospects for the coming year were very briefly disposed of, and with an estimated expenditure of £141,786,000 (a diminution of £246,000 on the budget provision of the previous year) and an estimated Exchequer revenue of £144,860,000 (an increase of £882,000 on the Exchequer receipts for 1905-6, after allowing for the "tiresome freak of the calendar" which gave 53 Sundays and 2 Good Fridays to 1906–7), there was an estimated surplus of £3,074,000 on the basis of existing taxation.

Before shewing how he intended to deal with this balance, the Chancellor of the Exchequer embarked upon a general survey of our expenditure, our indebtedness, our taxation, and how each compared with what it was and what it ought to be." Looking

back for a period of ten years (to 1896-7) he shewed that, during that time, the population had increased 10 per cent., the National Debt 21 per cent. and the national expenditure 39 per cent. Whilst stating his opinion that the figures he gave made a return to a "more thrifty and economical administration the first and paramount duty of the Government," it was chiefly to the question of indebtedness that Mr. Asquith addressed his remarks. During the last decade the total aggregate liabilities of the nation had reached their lowest figure (£635,400,000) in 1899 and their highest (£798,400,000) in 1903. On March 31st, 1906, they stood at £788,990,000; and there had thus been a reduction in the three years since 1903 of about £9,500,000, of which no less than £7,750,000 was attributable to the year 1905-6. In the thirty years between 1870 and 1899 the gross national liabilities had been reduced by nearly £150,000,000. The benefit of the whole of that reduction, which occupied the best part of the lifetime of a generation had, however, since then been completely wiped out, and our total capital indebtedness stood in 1906 practically at the same figure as in 1871. In the course of a very clear review of the different categories of the debt as it then stood, very much on the lines of Mr. Austen Chamberlain's observations in the previous year, the new Chancellor of the Exchequer dealt both with the "dead weight" debt and with the question of the "other capital liabilities," and in the first category he described the unwieldy and dangerous bulk of the unfunded debt as "the most serious factor in our financial situation at the moment." Excluding the £10,000,000 of Exchequer bonds created

in the previous year, the unfunded debt still amounted to £55,750,000 and formed a source of the greatest disquietude from two points of view. "In the first place," said Mr. Asquith, "it must be obvious to everybody that it would seriously hamper our borrowing power if a sudden emergency arose for which temporary provision had to be made by way of loan. And, secondly—and this is a consideration which, I think, is not sufficiently borne in mind by the public at large—it means that the Government is competing for and locking up funds that might otherwise be available for commercial and industrial purposes. The speedy contraction of this floating debt is in my opinion a matter of urgent necessity, even if it calls for some self-denial on the part of the tax-payer." The Government had accordingly decided to make a substantial addition to the provision for debt redemption; and by allocating £500,000 from the estimated surplus for the coming year and another £500,000 out of an amount still due under the Chinese indemnity of 1901, they found an additional £1,000,000 for this purpose. This sum, with the 9 millions which would be available under the fixed charge for the reduction of debt and the £3,466,000 realized surplus of 1905-6 (the old sinking fund), would bring up the provision for the reduction of the "dead weight" debt to about £13,500,000. But there would have to be borrowed for "other capital liabilities" in 1906-7 £6,500,000, against which might be set £1,900,000 provided in the votes for the repayment of similar liabilities, so that it was calculated that the reduction in the gross capital liabilities of the State ought for the year to amount to nearly £9,000,000, "a large

but in the circumstances by no means an excessive sum." [1]

Mr. Asquith did not confine himself to this clearer and more comprehensive statement of the case than most previous budgets had afforded, but proceeded to a severe condemnation of the system which, of recent years, had sprung up of paying by means of loans for capital expenditure incurred by various public departments, even though such loans had their own sinking funds providing for their repayment within a fixed time. The system had, as readers will remember, been constantly and strongly criticized by Liberal speakers for many years and notably during the past two or three years; and the total liability under this head amounted on March 31st, 1906, to £45,770,000. So far as the Army and Navy were concerned he announced arrangements for confining future borrowings, under the various Acts, to the continuation and completion of works already in hand, and so bringing this expenditure to a close at the earliest possible moment. The total to be borrowed in the present year would still amount, as noted above, to £6,500,000.

"The system, as it has been developed of recent years, has," said the Chancellor of the Exchequer, "three fundamental vices. In the first place it tends to confuse the distinction between capital and revenue charges. In the next place it inevitably encourages

[1] The year 1906 saw the close of two sets of terminable annuities set up by the National Debt Act, 1883, the Converted Annuities, £684,000 and the Chancery Funds Annuities, £2,324,516—a little over three millions in all. Mr. Asquith decided not to set up fresh annuities in their place, but to leave this annual sum free to discharge any kind of debt to which it could legally be devoted.

in the spending departments crude, precipitate and wasteful experiments. And in the third place (and this is not the least important consideration) it withdraws large items of annual expenditure from any effective Parliamentary supervision." Probably the most substantial point was the second, and the objection really felt was to borrowing at all for miscellaneous purposes of this kind. For supposing the permanent expenditure authorized under the Acts in question to have been necessary and properly chargeable to capital, the method adopted of raising the money by terminable annuities for twenty years (Telegraph Acts), thirty (Military Works), or fifty (public office sites), chargeable as regards interest and principal on departmental votes, appears to have been preferable to adding to the national debt for this purpose. The Government followed the same method with the new Telegraph Act in 1907.

Turning now to the disposal of his surplus, Mr. Asquith found himself in the first place obliged to allocate £135,000 to relieving the exigencies of necessitous school districts and £105,000 to some small postal reforms, before coming to the " more agreeable portion of his task," that of applying the remainder, about £2,000,000, towards the reduction of taxation. With this sum he proposed, at a cost of £1,000,000, to repeal the coal tax as from the 1st November, and to devote £920,000 to a reduction of the tea duty from 6d. to 5d. as from the 1st July, a date afterwards altered to the 14th May. To sum up, the surplus of £3,074,000 was disposed of as follows: sinking fund, £500,000; necessitous schools, £135,000; postal and telegraph services, £105,000; repeal of the coal tax, £1,000,000;

and reduction of the tea duty, £920,000; a total of £2,660,000, leaving a balance for contingencies of £414,000.

As regarded the income-tax, which he was obliged to leave for the moment untouched, Mr. Asquith associated himself with the declaration of more than one of his predecessors that it was impossible to justify an income-tax of a uniform rate of 1s. in the pound at a time of peace, and he announced that he proposed to take an immediate step which would at any rate clear the ground for future operations. "There are," Mr. Asquith said, "two familiar and, in point of justice and economic principle, valid objections to the incidence of the tax. They are, as every one knows, first, that above the limits of exemption and abatement it is levied at a uniform rate, and, secondly, that no distinction is made between precarious and permanent incomes. It appears to me that the time has come for a searching and authoritative inquiry, and at the earliest possible moment I shall ask the House to appoint as strong a Select Committee as we can get together to undertake the task. The reference to the Committee will be simply to inquire into the practicability of graduation and differentiation. It is well known, however, that many experts in these matters have grave doubts as to whether it is possible to reconcile graduation with our practice of collecting the tax at its source, and as to whether the additional yield of a graduated tax would be sufficient in amount to compensate for the worry, cost and irritation which it might involve. On the other hand there is the experience of foreign countries and of our self-governing Colonies, who have made

experiments in that direction and apparently are contented with them. I express no opinion of my own as to the probable results of an inquiry. I am satisfied it ought to be held and held without delay."

These remarks, it may here be noted, reflected the opinion of the new House of Commons, an opinion which had, as we have seen, been already strongly represented in its predecessor. Not only equity but imperious demands for increased contribution from the well-to-do classes pointed in the direction of the changes foreshadowed in these words; and a select committee appointed in accordance with Mr. Asquith's promise commenced its proceedings under the chairmanship of the late Sir Charles Dilke early in the month of May, and published its report in the course of the summer.

In closing his statement Mr. Asquith again reminded the committee that he and his colleagues had come into office at so recent a date that many of the governing factors of the case had already then been fixed. "I should like to see," he concluded by saying, "more attempted and more done than I can attempt or do this year in the reduction of expenditure, in the repayment of debt, and in the readjustment of the incidence of taxation." The budget was, in fact, what Lord Ripon described it in the House of Lords a "provisional" one, but its author was fully justified in claiming that "within the limits of his possibilities he had tried to do whatever he could to maintain the national credit and to deal out even justice and to preserve the balance of proportion between obligations and claims."

In the discussion which followed Mr. Asquith's

speech, general approval was shewn at the strong line he had taken about the national expenditure; but Mr. Balfour observed that he had a difficult task before him if reduction of expenditure was not to mean diminution of national strength, "in view of all the schemes (I will not call them dreams) of social reform on which Honourable Members had been returned to this House." "The House," said Mr. Cowan, "had committed itself among other things to the principles of old age pensions, of the supplying of free meals to school children, of a large increase in the cost of education and the payment of those Members of Parliament who were not in receipt of a salary as Members of the Government. These schemes all required money, and it was impossible that they could be carried through concurrently with a large decrease in expenditure."

The fact remained, however, that the budgets of these two years, 1905 and 1906, which immediately preceded and followed a general election fought largely on the question of economy, were the first for a long series of years which attempted to stem the tide of expenditure and indebtedness. The omens for a long continuance of this wholesome reaction were however none too favourable; and it was already clear that increase of expenditure had no terrors for the newly elected Members to whom many new resources seemed open in the nationalization of the railways and even of banking, in the taxation of land values and in the increased taxation of the liquor trade, should the need for any additional revenue arise.

There was already, therefore, every prospect of

the hope expressed by Mr. Trevelyan being fulfilled that this budget was the "modest prologue to a very considerable drama!"

The debate on the remission of the coal tax brought out the old arguments as to the broadening of the basis of taxation; both Sir George Doughty and Captain Craig laying it down that the continuity of taxation, especially when it effected this object, was invaluable. Mr. Harwood, speaking as a land nationaliser, insisted that the Chancellor of the Exchequer had by remitting the tax, deserted the fundamental principles of that party. The coal and all the mineral wealth of the country belonged, he said, to the nation, and when any part of that property was parted with there should be a *quid pro quo*. What happened, he asked, in regard to export coal? The landlord got his royalty, the miner his wages, the shipowner his freights, but where did the nation come in? He insisted that this coal export duty was "the assertion of the nation's property in coal," and was a means of getting some return for it.

But Mr. Joseph Walton and Mr. John Wilson, the two Members who had perhaps been the most determined opponents of the tax, were loud in their applause of the action of the Government, although Mr. Joseph Walton feared that we should not for a generation, if ever, recover the ground we had lost in the markets of the world "through the folly of a British Government in putting a tax on one of our own industries in a form in which it operated actually as a bounty of 1s. per ton in favour of foreign producers when competing with British producers in certain markets of the world." Mr. John Wilson,

in expressing the gratitude of the mining population of the country at the repeal of the tax, urged that its existence had been the means of developing the coal fields of Westphalia and Germany, and that it had created competition by foreigners which, but for the tax in this country, we should never have had. Mr. Asquith summed up the grounds on which the Government proposed that the tax should no longer form part of our fiscal system in a few admirably clear sentences. It was not, he said, in the interest of this or that class of employers or of employed but in the interest of the community as a whole that it was removed, for the tax was one which, in his opinion was possessed of almost every vice. In the first place it was the solitary export duty in the whole of our fiscal system. Although it purported to be a tax on coal, it was only a tax on that part of the coal which we exported, and therefore fell with unjust and uneven incidence on the coal industry. Whatever theorists might say, he entertained no doubt that in the long run and in the main it had been paid not by the foreign consumer but by the producer, for this reason—that the British coal which was sent to foreign markets was in active competition there with coal produced in other countries, with the result that a person in those markets could dispense with the British supply, or in other words, that the price ruling in those markets was not regulated by, but was independent of, the export duty with which we charged our industry. He did not believe it was possible to get a better practical illustration in the whole range of fiscal experience of how a burden might be thrown on our own industry in markets

where that industry was most exposed to the competition of foreigners. If any further arguments were needed they would be found, Mr. Asquith added, in the fact that this tax had been unanimously condemned by a Royal Commission composed of persons of the most diverse opinions and that, as they had been informed, it was intended to be abandoned by the late Chancellor of the Exchequer. With this consensus of argument, of experience, and of authority, it appeared to him that the Government would not be justified in maintaining the tax a moment longer.

A small change in the tobacco duty had been proposed by Mr. Asquith, who, though he almost "trembled to utter" the words leaf and strips, "simple monosyllables" associated in the minds of Members of the last Parliament "with hours and days, and even weeks, of embittered controversy," announced that he intended to reduce the differential duty of 3d. imposed by Mr. Austen Chamberlain on strips in 1904 to one half-penny. He was satisfied that little or no duty could ever be derived from the 3d. duty, and Mr. Chamberlain's objection to throwing the whole trade out of gear in order to remove the protective character of this differentiation was met by the reply that the trade was completely satisfied.

The only other matter which evoked any effective criticism was the abandonment of the loan system in providing for the expense of naval and military works. Mr. Balfour entered a strong protest against the change on the ground that the necessity for providing for the year's work out of the year's income might upset our whole system of taxation, and would throw the votes into confusion. "Whilst," he said,

"I agree with the Right Hon. gentleman that great sacrifices should be made to keep the expenses of the year within the finances of the year it is absurd in the present condition of modern invention, in face of the expenditure made by foreign countries on borrowed money, for us to expect, if we insist on never using borrowed money for these purposes, that we shall not gravely imperil the national well-being under the illusion that we are carrying out a scheme of national economy."

For the second year in succession the proposals made in the yearly statement passed on to the statute book without difficulty or delay. The Finance Bill was read a third time in the Commons on 13th June, and in the House of Lords on the 21st of that month; and the royal assent having been given on the following day the measure was finally disposed of well within two months of its introduction.

MR. ASQUITH'S SECOND BUDGET, 1907-8.

April 18, 1907.

From the financial point of view the year 1906-7 had been in many ways a year of surprises, but there had been nothing in it more surprising than that the balance to the credit of the national revenue account should have been found, when that account was closed on the 31st March, 1907, to be no less than £5,399,000. Once again the Exchequer issues had been under, and the Exchequer receipts over, the estimates; the former result (a minus of £3,000,000) being due mainly to savings by spending departments,

chiefly in the Army, and the latter (an increase of £2,000,000) almost entirely to three specific items. In the first place the coal duty, during the last seven months of its existence, had produced £345,000 above the estimate, a fact traceable to the very exceptional activity in the export trade which had, to some extent, been stimulated by strikes and by a shortage of supply in the French and German markets. The second item was the death duties, which, in consequence of the falling in of a number of abnormally large estates, produced a record yield of nearly £1,200,000 in excess of the amount which had been anticipated. In the last place, coming under the heading of "Miscellaneous" was the Mint, the exceptional profits of which were responsible for an additional sum of £441,000. But notwithstanding these particular results it could not be said, looking at the revenue returns as a whole, that they anywhere exhibited any very great elasticity; and indeed, considering the undoubted prosperity of trade which had rarely been more active and flourishing, the Stock Exchange being the one prominent exception, they were in some respects distinctly disappointing. There had, however, been a slight reaction in the alcoholic group in which, since the year 1899, a progressive and formidable decline had taken place; and the returns from tea and sugar had also, in each case, slightly exceeded the budget estimate. From all sources the total Exchequer revenue for the past year had amounted to £144,814,000, and adding a sum of £10,222,000 paid direct to the local taxation accounts, the amount of revenue actually collected by the State had reached the sum of £155,036,000.

For the coming year an Exchequer Revenue of £144,190,000 was to be expected on the existing basis of taxation, and the expenditure was estimated at £140,757,000, a reduction of £1,664,000 on the previous year's estimated expenditure; a reduction really greater than appeared because £1,019,000 was charged on Army and Navy votes, which under the pre-existing system would have been borrowed and charged to capital account. The main item of increase was in civil services for elementary education. The estimated surplus would, therefore, stand at £3,433,000. An additional £10,045,000 would be obtained from the Imperial taxes and paid direct to the local taxation accounts so that, on the new method of presenting the national accounts, the preliminary 1907-8 estimates would have been given as £154,235,000 revenue and £150,802,000 expenditure, the available surplus remaining of course the same.

Mr. Asquith had already, in his first budget, referred to the unsatisfactory manner in which the annual balance sheet was presented, having regard to the fact that a considerable amount of revenue actually collected by the State was altogether omitted, owing to its having been paid direct by the collecting offices to the local taxation authorities. This system had been initiated, as we have seen, in the year 1888 by Mr. Goschen with the twofold object in view of providing a contribution from personalty towards local expenditure, and effecting a permanent settlement between local and Imperial taxation by handing over to local authorities certain duties or taxes.

Mr. Asquith reviewed the course of legislation beginning with the manner in which the original

scheme had been mutilated in its passage through the House, and passing to the change effected by Sir William Harcourt's revision of the death duties by which even the semblance of a special contribution from personalty had disappeared, the Agricultural Rates Act, and other measures which had combined to render the "system even more intolerable than it was before," until the actual condition of things revealed a "headsplitting condition of chaos and confusion."

He therefore proposed that the proceeds both of the local taxation (customs and excise) duties, *i.e.* the additional beer and spirit duties, and of the local taxation licenses, should be paid into the Exchequer instead of into the local taxation accounts, and that the local authorities should receive from the consolidated fund a sum equivalent to the proceeds of these sources of revenue. The change was to come into effect in 1907-8.[1]

The Government by this change secured that those payments to the local taxation accounts which since the legislation of 1888 had been excluded from the national accounts should now reappear in them. It was, however, only a necessary first step. The object of the change, to quote Mr. Asquith's own words, was, "first of all to get rid of an enormous, most unsightly and inconvenient complication in our national accounts; secondly, to set free the hands of the Chancellor of the Exchequer with regard to a large area of taxation; and thirdly, to clear the ground

[1] For memorandum on this change and the legislation generally affecting local taxation grants, 1896 onwards, see the appendix to this budget.

(for this is only a provisional arrangement) for a future re-settlement, I hope on equitable terms, of the whole relations between the central authority and the local authorities."

Mr. Asquith proceeded to give a careful review of the capital liabilities of the State which during the years 1906-7 and 1907-8 would have been reduced by a very substantial sum; and stated that "first and foremost we are under an immediate obligation, often insisted on when we sat upon the other side in the last Parliament, and reiterated certainly by me over and over again at the General Election after I had assumed the office of the Chancellor of the Exchequer, an immediate obligation of reinstating and improving the national credit." Allowing for all exaggerated and ignorant talk about the price of Consols and gilt-edged securities generally, the situation, which was "largely the result of the unliquidated commitments of recent years," was, for the time being, a source of embarrassment not to the Government alone but to every community and trading concern in the country. It was, therefore, a paramount duty to make a substantial and exceptional effort to effect a further reduction in the National Debt.

But "behind and beyond this lies the whole still unconquered territory of social reform" which, "whether you look at it as a luxury or a necessity, is in any case expensive." The State had recognized its duty to the child and no one was prepared to go back on this duty. In 1869-70 the total cost of public education in the form of Parliamentary grants (there was no rate aid at that time) was £721,000.

In 1906-7 Parliamentary grants amounted to £13,359,000, sums received from rates £11,785,000, total £25,144,000. The next call upon the Government would be that for the provision of old age pensions, to be undertaken, as Mr. Asquith announced, in the next session; though, as he observed, "whatever is done in this matter must be done by steps and stages and cannot be achieved at a single blow." It was, therefore, necessary to begin building up the nucleus of a fund for the relief of necessitous old age. "If we are to have social reform we must be ready to pay for it, and when I say we I mean the whole nation, the working and consuming classes as well as the wealthier class of direct tax-payers."

One further point he insisted on. Whatever new resources might be provided for such purposes as had been described must be subject to the governing condition that the Government was a Free Trade Government and the House of Commons a Free Trade House. It was "wise for us who are not only of the party of social reform but the party also of free trade to make it clear if we can, and I believe we can make it clear, that the attainment of the one is not incompatible with the maintenance of the other" (*Parl. Debates*, vol. clxxii., p. 1192).

Seldom, if ever before, had the fortunes of a Government or a political party been more decidedly bound up with finance.

Mr. Trevelyan, speaking from the ministerial side of the House during the preceding session, had observed that the "budget was the pivot round which success or failure would turn," and nothing could have been clearer or more statesmanlike than the language in

which the Chancellor of the Exchequer placed the issues on this occasion before Parliament and the country. His action corresponded with his words, and keeping the two main objects he had expounded in view, he announced that it was impossible for him to "deal with the estimated surplus in such a way as to involve any permanent diminution of revenue of a substantial character."

Mr. Asquith then proceeded to make it clear that there would be no change in indirect taxation, and that, in effecting two substantial alterations in direct taxation, consisting in a revision of the income-tax and of the rates of estate duty, no practical difference would result to the revenue as a whole. What in effect he proposed was to relieve the poorer classes of direct tax-payers at the expense of the wealthier.

As regards the income-tax, Mr. Asquith, following in the first place the more conservative of the recommendations of the Select Committee of the previous session, proposed that an income not exceeding £2000 per annum should be charged, in so far as it was represented by "earned" income, at the rate of 9d. only, the tax remaining at 1s. for what was henceforth described as "unearned income," whether above or below that limit. The existing allowances up to £700 were to remain, but the exempted income was to be in the first place deducted from the "earned" portion of the income. "The effect of this change," said Mr. Asquith, "will be a very sensible relief to that class of income-tax payers who are grievously oppressed by the present burdens; and it will enable us, with a clear conscience and with much greater ease and simplicity of working, to treat the income-tax,

as I intend it should be treated, as a permanent part of our fiscal machinery." For the first year it was estimated that there would be a special loss of £750,000 due to the delay which must, it was expected, result in getting in the tax owing to the more complicated machinery required; but for a normal year the loss was put at £1,250,000.

The substantial relief thus given to the income-earner at once suggested the question whether, at the other end of the scale, property was contributing its fair proportion; and as it was postulated that the needs of the immediate future precluded any diminution of the national revenue, it was proposed to revise the rates of the estate duty in such a manner as to yield an ultimate increase corresponding as nearly as possible with the loss from the revised income-tax. Up to an estate of £150,000 no changes were made, but for estates above that sum the new rates were increased until an estate of £1,000,000 paid 10 per cent. instead of 7½ per cent. And at this point a new element in the shape of a "super-tax" was introduced, so that an additional 1 or 2 or 3 per cent. would be charged on the portions of an estate exceeding one million according to the amount of excess. An estate, for instance, of over £3,000,000 would pay 10 per cent. on the first million and 15 per cent. on the remainder. This was the maximum. (See scale, Part III. Table XI.) In the coming year an additional £600,000 was expected from the change but, when in full operation, the additional annual yield was estimated at £1,200,000.

Applying a sum of £200,000 to necessitous schools, and taking £333,000 as a margin for contingencies,

there still remained a disposable surplus of £1,500,000 with which the Chancellor of the Exchequer could not afford to part, for, as he said, "I shall need the money for the future; I shall need it next year." He therefore proposed, in the meantime, to apply it by diminishing *pro tanto* our national obligations, and added it to the sinking fund. Passing his proposals briefly in review, Mr. Asquith again laid special emphasis on the fact that the income-tax must now be recognized as "a fiscal engine with which we cannot dispense." "But," he added, "we shall remove from it its greatest blot by giving effective relief in the form of a lower rate of charge to that class of incomes on which it presses most heavily. We shall have made a substantial, but not, as I have shown, an extensive addition to the toll which the State exacts from large estates which pass at death. We shall have fulfilled to a degree never attained or even attempted before on the same scale in any single year the discharge of debt. Then in regard to the future. There are urgent, long-delayed, and overdue problems of social reform; and we shall have begun to provide the nucleus of a fund for the relief of necessitous old age. I shall have in hand next year, free and earmarked for the purpose, the £1,500,000 to which I have just referred, together with the uncollected arrears of this year's income-tax (amounting to £750,000) which will make a total of at least £2,250,000, and an additional sum from the increased estate duties. You cannot have everything at once, or everything together; but if you have set your purpose, as I believe you have and as we have, on this greatest and most urgent of social reforms, you must be willing

to sacrifice, or at any rate to postpone, other useful forms of an even beneficial expenditure. Nor are the resources of taxation, within free trade, yet exhausted."

In one of its aspects the Select Committee of 1906 on the income-tax had been an investigation into the possibility of increasing these resources. It was also the outcome, of course, of the growing opinion which, as we have seen, had found frequent expression in Parliament that the income-tax, which had remained essentially and structurally unaltered since the days of Mr. Pitt, no longer corresponded with modern scientific requirements, and was, as had always been recognized (see the inquiries by the Select Committees of 1851 and 1861), inequitable in many respects in its incidence. But interest on the subject had been quickened and strengthened by the hope and intention of the younger school of radical financiers of making it a much more efficient engine of revenue by means of a graduation which should tax the higher incomes in a more adequate manner, and by a differentiation which should mitigate the burden for those least able to bear the increased rates of a permanent tax.

It is these technical terms which define the application to the income-tax of the principle that a man should be taxed according to his ability or capacity to bear taxation; and the criterion by which the rate appropriate to a particular income is decided upon is, of course, in the case of graduation, the *amount* of the income and, in the case of differentiation, its *character or value* as permanent or precarious, spontaneous or industrial, unearned or earned.

Much the more important of the two principles

from a practical point of view is graduation according to amount, though both are interdependent to a certain extent. It is, in fact, not so much because an income is *earned* (for most incomes even in so far as they are unearned are due to labour and abstinence largely in a man's own lifetime) as because it is *small* that leniency of treatment is justifiable; and the example of modern foreign income-taxes certainly proved that the amount of income was the main criterion of "ability" to which effectual regard could be paid within the confines of an income-tax. Unfortunately however the structure of the British tax, unlike that of the Prussian and other typical Continental income-taxes, did not lend itself to graduation in this sense. Two-thirds of the tax was collected at the source without the requirement, essential to a progressive scale, of a personal return of his total income by the tax-payer except for the purpose of claiming abatements. It was beyond the ingenuity of the committee to reconcile the principles of the two systems and graft a regular progressive scale on to the British "taxation-at-source" tax. The extension of the system of abatement was impracticable beyond a certain limited point (up to which they recommended it) because of the inconvenience both to the tax-payer and to commerce of collecting large sums of returnable money; and the only solution was, therefore, to superimpose on the existing tax a new tax, to be applied to the larger incomes, based on personal declaration. The committee were accordingly prevailed upon to report that a super-tax on incomes of over £5000 per annum was practicable. Mr. Asquith confined himself however to pointing out the difficulties; incidentally

drawing attention to the fact, which the information laid before the committee had established, that no foreign or Colonial experience was really relevant or hopeful in the matter because the various systems of so-called graduation all stopped at about the point (£5000) at which this proposed graduation was to begin.[1]

The Chancellor of the Exchequer therefore fell back upon that recommendation of the Select Committee on the income-tax on which its members had been the least divided, and adopted the plan of differentiation in favour of "earned" income as the least difficult and invidious method of adjusting the burden to the ability of the taxpayer.

Here again the foreign experience so much consulted by the committee hardly supported the conclusions arrived at. This experience rather pointed to the solution of the question being found in the separate and additional taxation of property and property incomes, income (net income as far as that could be ascertained) being first taxed indiscriminately having regard to the amount of income in fixing the rates.[2] The consequent injustice to incomes of inferior quality or character would be redressed, not by relieving such incomes under the income-tax, but by taxing additionally incomes of higher quality under property taxes levied whether at death or annually. A glance at the method in which the

[1] See, on these points, the Introductory Report to the Blue Book on Graduated Income-Taxes in Foreign States (Cd. 2587, 1905), and Appendix 2, Report of Select Committee on Income-Tax, House of Commons, No. 365 of 1906, both by the present writer.

[2] See Introductory Report on Graduated Income-Taxes, pp. xii-xiii.

Prussian *Ergänzungs-steuer* or the Netherlands property tax are assessed—both of them analogous in principle to the method of assessment under our estate duties—shews how a property tax solves, not only the difficulty as between "earned" and "unearned" income, but also most of the difficulties which had exercised the minds of the Hubbard Committee, difficulties which would arise from an attempt to discriminate between "unearned" incomes of differing quality, income from different classes of securities, life annuities, "mixed" incomes and the like.

The Select Committee of 1906, in spite of the quantity of fresh evidence and information, statistical and other, which it elicited, did not go into these questions of principle with anything like the thoroughness of its predecessors. Its members approached their deliberations with their minds made up, some in favour of graduation, some in favour of differentiation and some in favour of both these devices, and disposed to brush aside the technical and theoretical difficulties in the way. But that they were impressed by the figures produced as to the actual differentiation effected by the action of the death duties in this country[1] and by the serious difficulties in the way of differentiation within the income-tax arising from the absence of a completely logical and satisfactory definition of what constitutes an earned as distinguished from an unearned income, was shewn by their conclusion that differentiation of the tax should not extend to incomes

[1] See Report of the Select Committee on Income-Tax, House of Commons, 365 of 1906, Appendix No. 1, by Mr. Mallet, and No. 8, by Sir Henry Primrose.

of over £2000 or £3000 per annum. In this form, in which it was adopted by the Chancellor of the Exchequer, there was no very serious objection to be raised to it, if it were considered that incomes ranging between £160 and £700 or again between £700 and £2000 were, on the whole and as regards certain classes, overtaxed in proportion to larger incomes. The measure really had an effect equivalent to that of a further graduation of the tax on a large proportion of incomes under £2,000 per annum.

The increase in the estate duty rates was primarily directed to increasing the revenue from this tax. If its effect as an agent of differentiation had been taken into account, it might have been argued that the increase was justifiable on this ground, For if the rates of 1894 were proportionate to an 8d. income-tax, an income-tax of 1s. demanded an increase of those rates. But the committee made no attempt to lay down the proportion in which earned and unearned income should respectively be taxed, though such a proportion might have been established both from previous theoretical discussion and from actual experience without much difficulty, and would have been useful as an authoritative pronouncement for future guidance. They took the more doubtful course of suggesting that one of the advantages of their recommendation was the ease with which the highest rate could be raised without equally increasing the rate on earned income. In a year or two the normal or foundation rate of the income-tax was accordingly raised from 1s. to 1s. 2d. without any corresponding alteration of the "earned" rate; and a course of action foreshadowed which might easily end in an

almost penal treatment (as under the Italian differentiated income-tax) of income from property.

The debates on the estate duty and income-tax brought no very new or notable comments on the part of individual Members, though the definition of "earned" income gave rise to some interesting discussion. Conservative criticism shewed alarm at the extension which was being given to direct taxation, and Mr. Austen Chamberlain thought the budget "disquieting" and "ominous" from the point of view of expenditure. Advanced ministerialists, though hardly satisfied at the tentative steps now taken, were consoled by the reflection that the foundation of further advance was being laid, but public opinion had long been ripening in favour of some development of direct taxation and the budget as a whole commended the cordial assent which it fully deserved. No praise could be too high for the improvements at last made in the public accounts both as regarded local taxation and capital liabilities and expenditure, and for the wise and liberal provision made for the reduction of the National Debt. On one point, however, strong objection might have been taken by survivors of the Gladstonian school of finance, which held that the provision of taxation should be confined to the needs of the year, and which considered an excessive surplus as only less discreditable to a Chancellor of the Exchequer than a deficit. "It is," said Mr. Asquith, "a mistake to treat the annual budget as if it were a thing by itself, and not, as it is, or as it certainly ought to be, a necessary link in a connected and coherent chain of policy. In my opinion, and I think it is an opinion that will be

shared by a great number of honourable gentlemen opposite, the country has reached a stage in which, whether we look merely at its fiscal or at its social exigencies, we cannot afford to drift along the stream and treat each year's finance as if it were self-contained. *The Chancellor of the Exchequer, in other words, ought to budget not for one year but for several years.*"

In Mr. Asquith's hands indeed this theory, not perhaps so novel in practice as it appeared,[1] led only on the present occasion to the laudable and desirable result of appropriating for the redemption of debt a sum of one and a half millions which might otherwise have gone in reduction of taxation. But the experience of Sir William Harcourt's measure of 1894 which placed ever increasing revenues in the hands of his successors was not altogether encouraging; and it remains to be proved whether the policy thus solemnly enunciated is conducive to public economy, and whether it is safe to arm a finance minister with funds for purposes for which the endorsement of Parliament and the people may not always have been previously obtained.

The Agricultural Rates Act, 1896, exempted occupiers of agricultural land in England from the payment of half their rates, and granted to local authorities a fixed sum equal to half the amount of the rates raised in respect of agricultural land in 1895-6. This grant is made out of the proceeds of the portion of the estate duty levied on personalty, and is paid into the local taxation account, from which the amounts due are paid straight to each local authority concerned.

Corresponding Acts made equivalent grants to Scotland and Ireland, and were calculated as in the case of the death duty grants at $\frac{11}{80}$ and $\frac{9}{80}$ of the amount allocated to England. In

[1] Cf. Mr. Gladstone's budgets of 1853 and 1860.

Scotland, however, it was found that by such method the grant was not sufficient to effect the desired exemption, in respect of agricultural land, of the payment of half the rates, and accordingly, under the Local Taxation Account (Scotland) Act, 1898, an additional sum of nearly £98,000 was paid into the local taxation (Scotland) account out of the consolidated fund.

A similar change was made in regard to this grant in respect of Ireland. The Local Government (Ireland) Act, 1898, wholly reorganized the grants. In the first place the agricultural rates grant was increased to half the rates levied in respect of agricultural land outside boroughs and urban districts in 1896-7, and was paid over to county councils and appropriated by them in relief of the new general poor rate on agricultural land. Further, certain grants in aid were transferred from the votes to the local taxation (Ireland) account, and two new grants authorized to be paid. To meet these extra payments out of the account the agricultural rates grant of £727,655, together with a further fixed sum of £79,000, was charged on the consolidated fund. Also a sum equal to the proceeds in the preceding year of such of the local taxation licences as are levied in Ireland is paid to the local taxation (Ireland) account out of the consolidated fund.

Then, in 1899, a further alteration was made by the Tithe Rentcharge (Rates) Act, which relieved tithe rentcharges in England and Wales attached to benefices of the payment of half the amount of their rates. The deficiency in the rates is recouped out of the portion of the proceeds of the estate duties paid into the local taxation account (England). It is not, therefore, an additional grant from the national revenues, but merely a payment out of the balance in the local taxation account, which would otherwise be distributed among the Exchequer contribution accounts of counties. The sum required is an increasing one, and the Act applies only to England and Wales. These provisions in respect of the Agricultural Rates Grant were introduced as temporary measures, but they have since been renewed and are still in force.

The Education Act of 1902 definitely earmarked the residue of the additional beer and spirit duties to higher education, and thus reduced the sum available for the general relief of rates.

Recent Finance Acts have greatly altered the form as well as the substance of the grants. The Finance Act, 1907, provided that the proceeds both of the local taxation (customs and excise) duties (*i.e.* the additional beer and spirit duties) and of the local taxation licences should be paid into the Exchequer and not into the local taxation accounts, and that the consolidated fund (in addition to those grants already charged to it) should be charged with payment to the local taxation accounts of—

(i) the estate duty grant, including (so long as the Acts remain in force) that under the Agricultural Rates Acts in England and Scotland; and

(ii) a sum equal to what would have been paid into the local taxation accounts as the proceeds of the additional beer and spirit duties, and the licences at the rates then in force. In this way the Treasury regained control over the proceeds of these duties, with a free hand for alteration of the rates. To allay the anxiety of local authorities that an increase in the rates of duty would affect the normal growth in the number of licences, and thus affect the amount due to them if the amount were calculated at the then existing rates, a clause was inserted providing that the amount payable to a local authority should not be less than the average proceeds of the duty for the three years ending March, 1907. This was the final blow to the theory on which the assigned revenues was built up.

The Finance Act of 1908 transferred the collection of certain local taxation licences [1] from the Government to county councils, and towards the cost of collection a sum of £40,000 was granted out of the consolidated fund, distributed in proportion of the proceeds of the duties collected in the counties for the previous year. It was further provided that, in the event of a change in the rates of any of the duties transferred, the collection of that duty should revert to the Imperial authorities.

Further changes were made in the Finance (1909-1910) Act, 1910. The system of duties on motor cars was wholly revised, but the collection of the duties was left to the local authorities, and it was provided that they should receive of the proceeds only

[1] These were the duties on licences to deal in game, for dogs, killing game, guns, carriages, armorial bearings and male servants.

the amount collected in the year ended 31st March, 1909. In the same Act the duties on licensed houses (which of the local taxation licences produce as much revenue as all the other licences together) were revised, but provision was made that the local authority should receive only the amount they received under the old scale.

The Revenue Act, 1911, has further stereotyped the amounts payable into the local taxation accounts by fixing the amounts of the beer and spirit surtaxes, and the liquor licences at the figure of the proceeds of these items for the year 1908-9. Taking the finance accounts of the United Kingdom for the year 1911-12, roughly two-thirds of the whole sum, and all the items except "other local taxation licences" and the estate duty grant in relief of rates generally have become fixed sums, involving, so far as these items are concerned, a complete abandonment of the theory and practice of assigned revenues.

In order to complete the account it is necessary to mention that, in addition to the sums paid to local authorities through the local taxation accounts, there are the education grants (which have increased very largely since 1888), the grants to reformatories and industrial schools, the grants under the Unemployed Workmen Acts and the contributions in lieu of rates. This set of grants lies outside the local taxation account payments, being paid from the annual votes.

A departmental committee was appointed in April, 1911, to deal with the question of a resettlement of the relations between the central and local authorities.

MR. ASQUITH'S THIRD BUDGET, 1908-9.

May 7, 1908.

THE budget for the year 1908-9 was introduced by Mr. Asquith on the 7th of May, 1908, as Prime Minister, to which office he had succeeded on the 8th of April on the retirement of Sir Henry Campbell-Bannerman. It was, as he remarked, the first time within the memory of any of those present when the annual financial

statement had been submitted by any other minister than the Chancellor of the Exchequer, though there were precedents for that course as far back as the time of Sir Robert Peel. But the ministerial changes had been so recent that both he and the new Chancellor of the Exchequer (Mr. Lloyd George) felt that it would be a matter " not merely of personal, but also of public convenience " that he should take the place of the last-named minister for that afternoon. The arrangement was, moreover, natural inasmuch as that the 1908 budget was in a special sense a sequel to that of the previous year. For it was to announce the establishment of a scheme of old age pensions, and therefore of the achievement of the first step on the path of " social reform " for which Mr. Asquith himself had avowedly laid the foundation twelve months previously.

He opened his statement with some observations of a general character on the condition of trade. During the calendar year 1907 foreign trade had been raised both in volume and value, and signs that the tide had begun to ebb at the end of that year did not seem to point to more than a slackening of the rate of expansion which had been " proceeding with extreme and unparalleled rapidity." Mr. Asquith reminded his hearers that, based on the new method of presenting the national accounts which he had fully explained in his previous budget, the estimates for the financial year 1907-8 read as £152,835,000 of revenue and £152,502,000 of expenditure, leaving a margin of £333,000 for contingencies. The actual results for the twelve months ending the 31st March, 1908, had been £156,538,000 revenue, and £151,812,000

expenditure, giving a realized surplus of £4,726,000, which compared with surpluses of over one, three and five millions respectively in the three previous years. Once again a decline in the productiveness of the alcoholic group of customs and excise duties had to be noted; but, apart from this, the returns from indirect taxation were very satisfactory. The estate duty had almost exactly realized the estimate of the Board of Inland Revenue, but the most interesting item and by a long way the largest contributor to the surplus had been the income-tax, which had actually produced £780,000 in excess of the sum paid in 1906-7, *i.e.* before the alteration of the tax in the previous year and no less than £1,880,000 in excess of the estimate on the revised basis. This had occurred because the lower rate (on approximately 750,000 income-tax payers) had increased the amount of income disclosed, and the £750,000 allowed for arrears had owing to the zeal and efficiency of the Inland Revenue department been practically all collected within the year. The scheme of differentiation, which had for sixty years been considered unworkable in practice, had shown itself "to be not only practicable but smooth and easy in its operation." "It has," said the Prime Minister, "paid for itself; and it has removed, once and for all, the most obvious and crying grievances and inequalities—I do not say all of them by any means—but the most crying grievances and inequalities which have marred the equity and clogged the efficiency of the income-tax as a permanent instrument of revenue."

Turning to the question of the State's capital

liabilities (a subject to which particular attention had been devoted in this and the two previous budget speeches), Mr. Asquith had to report that, during the last twelve months, the funded debt had been reduced by £6,319,000, the terminable annuities by £1,457,000 and the unfunded debt by £10,254,000, so that the "dead weight" debt at the end of the financial year, as compared with the beginning, showed a reduction of the very large amount of £18,030,000. Taking into account some additions that had been made to "other capital liabilities" under various still existing heads (Naval and Military Works Acts, Post Office, Telegraph Acts, and the like), the net reduction effected in the aggregate gross liabilities of the State during the past year reached the sum of £16,839,000, "a result on which the country and the committee might fairly congratulate themselves." In the current year, Mr. Asquith estimated that the "dead weight" debt would be further reduced by some fifteen millions and the gross liabilities by £13,776,000, notwithstanding that he proposed to divert £600,000 from the sinking fund to further capital expenditure on public offices instead of entering on a fresh loan for the purpose.

Summing up the total redemption of the debt since the conclusion of the war in 1903, Mr. Asquith shewed that during the years 1903 to 1905 that reduction had amounted to £27,500,000 or about £9,000,000 a year; and that during the three years, 1906-1908, during which the Liberal Government had been in power, it would amount to £46,700,000 or about £15,500,000 a year. In the same three years the aggregate capital liabilities of the nation would have

been reduced by £41,000,000 and a saving of nearly £1,250,000 in interest would have been effected.

The income-tax and estate duty having now passed through the transitional period resulting from the changes effected by the previous year's Finance Act, the calculations of the anticipated yield from these duties for the coming year were considerably simplified; and, taking the revenue from all sources, it was estimated that on the existing basis of taxation the State would collect a gross revenue of £157,770,000, which, put against an estimated expenditure of £152,869,000, left an estimated surplus of £4,901,000.

Before proceeding to dispose of his surplus, Mr. Asquith announced that steps were about to be taken to transfer the Excise Department from the Inland Revenue to the Customs, an administrative change of considerable importance and value which has practically had the effect of vesting the management of direct taxation in the Commissioners of Inland Revenue and that of indirect taxation in the Commissioners of Customs and Excise.

The prospective arrangements for the coming year included two small changes which involved respectively a reduction of £20,000 from the stamp duty on marine insurance policies and the grant of an additional £40,000 to the local authorities; and Mr. Asquith was thus brought to that portion of his statement which dealt with the introduction of old age pensions, an announcement which was recognized on all hands as marking the year's budget as "an epoch in our national policy" (*Times*, 8th May, 1908).

It would be unnecessary in this study, which is

only concerned in the financial aspect of the matter, to say more than that the main principles on which the measure was based were that the system adopted should be non-contributory; that the obligation for payment of the pensions was to rest on the Treasury and not in any way on the local authorities; and that the claimant must comply with certain qualifications of age, means, status and character. It was subsequently announced that the provisions of this measure were to be embodied in a separate Bill. But the Finance Bill itself made definite provision for financing the scheme which, for the final quarter of the financial year 1908-9, was estimated to cost £1,200,000, the outlay for a full working year being put at £6,000,000, and later on by Mr. Lloyd George after certain modifications had been introduced at £7,000,000.

For the coming year the Prime Minister was accordingly still left with an undisposed-of balance amounting to over 3½ millions; and he then stated that this would be used, to the amount of £3,400,000, not in building up the fund for old age pensions as foreshadowed in last year's speech, but in reducing the sugar duty, leaving a final surplus for contingencies amounting to £241,000. Even this was not realized, and the first deficit since Mr. Ritchie's budget of 1903 took its place.

The question of the provision to be made for the grant of old age pensions, taken in connection with those of the reduction of debt and the growth of the national expenditure, is the feature of this budget. The cost of the measure was naturally increased by the decision in favour of a non-contributory system.

Whatever the advantages of the opposite plan which were forcibly stated in various quarters (more particularly out of Parliament), there had probably never been any very serious chance of a completely contributory system since Mr. Chamberlain's pronouncement against it on March 22nd 1899, if for no other reason than that, as Mr. Asquith said, "none of the benefits" of such a scheme "could come into operation till after the lapse of twenty or more years." In naming the estimate he did, he had observed that the plan adopted should be "one of which we should from the first be able to foresee—I do not say with precision but with reasonable accuracy—the ultimate cost; and thus avoid committing Parliament to a mortgage of indefinite amount upon the future resources of the country." Experience, however, has amply shewn the wisdom of his subsequent qualification when he spoke of all estimates either of number or cost being "in the highest degree conjectural." On his own original estimate of £6,000,000 there remained a sum of £5,000,000, not to speak of unavoidable additional expenses in other directions such as the Navy (bringing the total, on Mr. Austen Chamberlain's estimate, up to £10,000,000), for which provision would have to be made in the 1909 budget. The most was, of course, made by the opposition speakers of the contrast between this state of things and Mr. Asquith's pronouncement in the preceding year that Government should budget not for one year only but for several years, and his insistence on the necessity of building up a fund beforehand to meet the cost of social reform. "This was almost the first budget," said Mr. Lawrence Hardy, "which

left a little deficit of 6 or 7 millions to be supplied out of practically no funds whatever."

Lord St. Aldwyn summed up this point of view later on in the House of Lords. "If," he said, "the Prime Minister had followed this year the wise and sound financial policy he adopted last year in making provision for the future burden which he knew was imminent, he would have continued the sugar tax and would have devoted £3,500,000 this year towards additional repayment of the debt, and have had £3,500,000 in hand next year as a most important contribution towards the cost of old age pensions. Had this been done it would have been not only in accordance with financial prudence but with justice in the allocation of taxation, because I cannot conceive a tax that could be more appropriately used to bear a part of the burden of old age pensions than the sugar duty." It was a complete change of front. Mr. Sydney Buxton went so far as to contend that it was "no part of the duty" of the Chancellor of the Exchequer, "if he has 3½ millions funds in hand over and above his liabilities to keep that money in his pocket and not to deal with taxation. It is his duty to allow that money, to use an old fiscal phrase, to fructify in the pockets of the people." From this point of view the reduction of the sugar duty was technically defensible, and two other considerations were brought forward in favour of that course; one, that this reduction put it out of the power of Members to vote for the enlargement of the scheme during its passage through the House (Mr. Lawrence Hardy); and the second, a party argument advanced by Mr. Theodore Taylor, that the lessening and ultimate abolition of the

tax would be "somewhat inconvenient to those who had it in their heart to exchange it for corn and meat taxes later on." Lord Cromer, however, who foretold from the initiation of the old age pension scheme, "the ruin of the free trade cause," said in the House of Lords that "it would be a very great mistake to suppose that all free traders welcomed the reduction of the sugar duty. It is not of course that we like the sugar duty, we are very glad to see it reduced; but many of us certainly think the moment for making it singularly inopportune for the very good reason that the country cannot afford it."

There was nevertheless one source of increased revenue to which Mr. Asquith looked in aid of the next year's inevitable increase of expenditure. In his observations on the present situation of the National Debt the Prime Minister had dwelt with not unnatural complacency on the extraordinary and successful efforts which had been made since the conclusion of the war, and especially in the last three years, to reduce the amount of the capital liabilities of the State. But his critics objected that these efforts would only, as he himself had shewn, result in bringing the country back at the end of the financial year 1908-9 to about the position in which it stood in 1889, and that a reduction of 70 millions was required before the debt was reduced to the level of 1899—the year Mr. Asquith had himself selected for the comparison in the previous year when he was urging the further reduction of the debt.

The Government, however, had decided that the moment was arising when, although fresh liabilities which could never be extinguished were being imposed

upon the Exchequer, a review of the situation would be justified. "I do not think," said the Prime Minister, "though of course the Chancellor of the Exchequer will exercise his unfettered judgment in making future proposals—I do not think that if I were in his position I should be justified in asking the tax-payers of the country to continue to pay £14,000,000 or £15,000,000 a year for further reductions of debt. I think the efforts we have made, unprecedented in their character, will justify a review of the situation and the setting free of some substantial part of the revenue which in the last three years we have applied to that purpose."

For the rest the debates were marked by the usual variety of criticism. From the Radical and Labour benches came protests that the age limit for pensions, 70, was far too high and should be speedily reduced to 65 or even to 60, while 5s. a week was declared to be totally insufficient. In the same quarter there was plenty of optimism as to the possibility of increasing the revenue. Mr. Arthur Henderson said that the "whole argument of the Prime Minister went to shew that this country possessed magnificent financial resources to which future Chancellors of the Exchequer might resort." Mr. Chiozza Money looked to the acquisition of revenue-producing "monopolies" such as coal and railways, and urged the adoption of a fully graduated income-tax in place of the existing system of abatements and differentiation. Others advocated the taxation of land values, and Mr. Bottomley made a series of suggestions for raising an additional 50 millions without having recourse to Tariff Reform! On the other side Mr. Austen Chamberlain, among

other points, drew passing attention to the incidence question which appeared to have been lost sight of. He quoted a speech which the Prime Minister had delivered at Lancaster in which he said that the money for a scheme of old age pensions, so far as provided by taxation, must be drawn from all classes of the community including the working classes, and complained that the budget had by no means followed these lines. An additional burden had been imposed for the benefit of the poorest classes, and yet that very moment had been chosen "to remit more than half of one of the few taxes that the poorest among us need pay." Not only so, but since the produce of the income-tax had more than made up for the remission given by differentiation, the burden on the direct taxpayers had been increased by the amount of the increased estate duty.

Such sentiments found little echo in the Parliament of 1906. The question so much discussed in the preceding House of Commons as to the incidence of the burden of taxation on the different classes of the community, the question on which Members like Mr. Haldane and Mr. Herbert Samuel had pressed for an expert committee of advice, was decided for the time by the mere fact of the political complexion of the new House, which desired, as its predecessor had deprecated, increasing resort to direct taxation. Finally, Mr. Gibson Bowles in one of the most incisive and candid of his speeches summed up the situation by observing that "the real outstanding feature of the budget" was neither old age pensions nor the reduction of the sugar duty, but the fact that "in spite of all pledges during and after the late

General Election it was understood to be impossible to reduce or control expenditure," and that "retrenchment was over and done with." To judge from any of the speeches delivered during this and the previous session members of the Government majority appeared honestly to entertain the idea that expenditure and taxation were good in themselves; to him "all taxes were without exception evil and bad," they were all paid "not by goods or by interests but by individuals, and however raised or imposed they fell in the end, inevitably and always, on the whole mass and body of the people."

Both the Finance Bill and the Old Age Pension Bill received the royal assent on the 1st of August, 1908.

MR. LLOYD GEORGE'S BUDGETS.

FIRST BUDGET, 1909-10.

April 29, 1909.

With this budget we enter upon a stage of financial history with which, for two reasons, it is proposed to deal in an even more summary fashion than has been adopted in the preceding statements. In the first place it appears alike unnecessary and undesirable to dwell at length upon events which are still fresh in the public memory and which must remain for some time to come a subject of party controversy. In the second place to give an adequate idea of this budget would extend the present volume beyond all permissible limits. The only peace budget of this series with which that of 1909 is comparable is Sir William Harcourt's budget in 1894. The latter is memorable as the first really drastic assertion of the place of direct taxation in our fiscal system, and for the introduction of the democratic principle of graduation, and in both respects its consequences were destined to be far reaching; but it dealt only or mainly with one branch of the revenue, that of the death duties. The budget of 1909, on the other hand, not only ranged over the whole field of taxation, but was significant for its abandonment of the older limitations attaching to the raising of revenue and

the open and unqualified adoption of the theory that taxation should be used for the purpose of social regeneration. It not only provided for a larger increase of taxation than had ever before been required in a time of peace, but it led in addition to great party conflicts and, as the direct cause of two general elections, profoundly affected the political constitution of the country. The story of the budget of 1909, in short, comprised the whole domestic history of the United Kingdom during at least two eventful years. On the other hand, to leave it untouched would be to break off this study just at the point at which the changes and tendencies of the preceding twenty years were about to culminate. The period of the South African War had resulted in a permanently higher level of expenditure which under Unionist auspices had sorely strained the revenue system, and been largely, perhaps too largely, met by permanent additions to the debt. The country was now face to face with another great increase of expenditure, due this time to the exigencies of "social reform"; and the task before the Liberal Government was to prove that from the revenue point of view "free trade finance was not bankrupt," and that the new liabilities which had been incurred and were still to be incurred could be met by developments mainly along the traditional fiscal lines. This task was accomplished, and the necessary revenue for immediate purposes was raised by measures of which some account must be given before a natural conclusion of the period under review can be reached.

The budget which was opened by the Chancellor of the Exchequer on the 29th April, 1909, and which,

among other remarkable results, was to upset many Treasury and constitutional precedents, had been heralded by much gloomy anticipation, Mr. Lloyd George himself as early as the previous July having referred in a speech at the Mansion House to the probability of his having to face " a stunning deficit, a falling revenue and depressed trade." On this occasion Mr. Lloyd George introduced the practice of circulating among Members a printed memorandum of the financial results of the past year, to which he made the shortest possible allusion in his speech. The revenue had been affected by the depression of trade and had fallen short of the estimate by an amount of £1,502,000, which would have been greater but for large forestalments of dutiable goods (especially spirits) bringing in some £550,000 in anticipation of the budget; and the small margin for which Mr. Asquith had estimated had been turned into a deficit of £714,000, which Mr. Lloyd George met by taking it out of the Exchequer balances. The estimated produce of local taxation licences (£1,270,000), transferred under §6 of the Finance Act 1908, from January 1st, 1909, to the county councils, had diminished the amount on the expenditure side payable to the local taxation account, and on the revenue side it had equally reduced the excise receipts; while civil services had exceeded the estimate by £1,479,000 due to the establishment of old age pensions.

For the first time, however, the gross income which came under the review of the Inland Revenue Department had passed one thousand million pounds, and the income-tax had exceeded the estimate by £930,000. Since 1899-1900 the total revenue had risen by more

than 15 per cent., and that derived from direct taxation by 26 per cent.

On the basis of existing taxation the Chancellor of the Exchequer estimated the revenue at £148,390,000, and the expenditure at £164,152,000, leaving a deficit of £15,762,000. The deficit was in part attributable to the anticipation of duty which had decreased the estimated produce of the customs and excise; and for the rest the needs of the Navy figured, as was usual with Ministers in financial straits, in the forefront, though the main expenditure on this account would fall on the following year, and in 1909-1910 accounted for no more than £2,824,000 of the increase, while old age pensions were the main item in an addition of £8,360,000 to the previous year's civil service estimates, their actual cost in 1909-1910 being put at £8,750,000.

With an addition of £350,000 to the credited expenditure for the development fund, for labour exchanges and valuation staffs, and with a margin for emergencies, the total amount for which means must be found by fresh taxation, or otherwise, came to 16½ millions, a very formidable figure indeed.

The first step towards meeting this deficit was that which had been foreshadowed in Mr. Asquith's speech in 1908, viz. a reduction of the sinking fund, for which Lord Goschen's and Lord St. Aldwyn's similar "raids," sternly criticized though these had been by the Liberal leaders of the day, afforded a welcome precedent. This reduction had been expected to exceed the three millions (£28,000,000 to £25,000,000), subsequently increased to 3½ millions, which Mr. Lloyd George announced. He justified

it on the ground that of this £25,000,000 nearly seven millions would be available annually for repayment of principal after the payment of interest and management charges, a sum larger than the average annual provision made for reduction of debt in the ten years preceding the South African War. The dead-weight debt had been reduced in the previous year by £8,788,000, and if the unexpended balance of sinking fund monies in the hands of the National Debt Commissioners, less the amount of the realized deficit, were devoted to the extinction of debt, there would be a real reduction properly attributable to the finance of the year (1908-9) of £15,538,000.

There still remained thirteen and a half millions to be raised for the service of the year. Without repeating details which will be found in the budget tables it may here be noted that towards this total £6,700,000 was to be contributed by increases of the spirit and tobacco duties and by a revision and increase of the liquor licence duties. Of this total, £340,000 from the new petrol duty (3d.) and £260,000 from the new motor car licences were to be paid to the new Road Board. Under the various heads of inland revenue duties, estate duty, stamps, and income-tax, with the produce of the new land taxes, a total of £7,500,000 was estimated for; and the result, after certain readjustments and deducting £3,000,000 (debt charge reduction) from the expenditure side of the account, was to leave the figures as follows:

Total estimated revenue -	£162,590,000
,, ,, expenditure -	162,102,000
Estimated margin as surplus -	£488,000

Mr. Lloyd George's momentous speech occupied 4½ hours in delivery with an interval for rest. It ranged over an enormous variety of topics; beginning with the problem of Dreadnought building, it went on to urgent social problems; old age pensions, and the removal of the pauper disqualification, the measures for insurance against invalidity and unemployment which were in course of preparation, the development of the resources of the country by the institution of a national development grant for such objects as afforestation, scientific agricultural research and instruction, co-operation, rural transport; as also motor traffic and road maintenance for which funds were to be specially raised and placed at the disposal of the Central Authority—all subjects discanted upon with earnest eloquence and summed up in the words "This is a war budget. It is for raising money to wage implacable warfare against poverty and squalidness."

The three principles upon which the Chancellor of the Exchequer intended to proceed were (1) that the taxation imposed "while yielding in the present year not more than sufficient to meet their year's requirements . . . should be of an expansive character so as to grow with the growing demands of the social programme which had been sketched out without involving the necessity of imposing fresh taxation." (2) That it should not "inflict any injury on that trade or commerce which constitutes the sources of our wealth," and (3) that "all classes of the community in this financial emergency should be called upon to contribute."

On this last point he expressed the opinion that

"the industrial classes, upon a close examination of their contributions to local and Imperial finance, are paying more in proportion to their income than those who are better off." What ground there may have been for this opinion it is difficult to say, but even if statistics had been available to decide the question as to the actual incidence of taxation upon different classes, the question as to what that incidence ought to be might have remained unanswered, perhaps unanswerable. Of the new taxes the additions to the tobacco and spirit duties alone directly fell in any large proportion on the wage-earning classes of the community. Together they were estimated to yield in the current year £3,500,000 which, even if the estimate was realized, would be only £100,000 more than the sugar revenue remitted by Mr. Asquith in 1908.

Apart from the comprehensive and long overdue reform of the liquor licence duties estimated at first to produce £2,600,000, afterwards reduced to £2,100,000, the main sources relied on were those well-tried props of the revenue the income-tax and death duties, for the startling increase in the spirit duties was much more experimental. Granted the necessity of increased expenditure, the increases and changes proposed in the income-tax were legitimate and were generally so accepted, although the following observation which fell from Mr. Bonar Law in commenting a year later on this "triumph of free trade finance" was representative of the attitude of the opposition. "Nobody doubts," he said, "that the Government can raise the money, but we have always said, and we say now more strongly than ever, that you cannot

raise it except by putting burdens on the individual which are absolutely unjust, and putting burdens on communities and trades which are bound to be ruinous in the long run to those interested." In the case of "earned" incomes the tax remained at 9d. for incomes up to £2000 a year, for incomes between £2000 and £3000 a year it was fixed at 1s., and for all other incomes then liable to the 1s. rate, the tax was to be at 1s. 2d. in the £. On incomes of under £500 a special abatement of £10 was given for every child under sixteen.

But the great feature was the adoption of the super-tax recommended by the Select Committee of 1906. This was fixed at 6d. in the £ on all incomes over £5000 leviable on the amount of their excess over £3000 per annum ; and it would yield, on the assumption that the number of such incomes was 10,000 and the aggregate income 121 millions, £2,300,000 in a full year and in the current year (as new machinery had to be set up) £500,000 only.

The death duty increases were heavy (see tables) and inspired grave doubts in the minds of independent financiers and economists whether their ultimate effect would not be detrimental to capital accumulation and the national wealth. Not only were the rates of all the existing duties considerably augmented, but spouses who had not previously paid either legacy or succession duty, and lineals, who had been freed from these particular duties since 1894, were now to be charged therewith at the rate of 1 per cent. in cases where the value of the property passing on the death, and liable to estate duty, exceeded £15,000. Among various minor changes which experience had

shewn to be desirable in the working of Sir William Harcourt's scheme reference may also be made to the increase from one to three years (originally proposed at five) as the period during which property, which had formed the subject of an absolute gift *inter vivos*, should remain liable to estate duty on the death of the donor.

Numerous and powerful as were the interests affected, the opposition to this budget would perhaps not have become effective if it had not been for the proposals for the valuation of land with which the Chancellor of the Exchequer weighted his wide-reaching scheme. The fundamental idea was to secure to the State a direct contribution from the owners of land whose property had grown in value owing to the energy and enterprise of the community. Taking the 30th April, 1909, as a starting-point, it was proposed to deal with future appreciation only; and the first link in the chain accordingly consisted in the making of a complete valuation of the land of the entire country, differentiating between the gross value and the site value of the land, *i.e.* between the value of the site covered and the site cleared, the principal taxes being charged by reference to the site value only. This valuation (a task of very great magnitude) is now being carried out by the Inland Revenue Department.

Of the four new duties themselves as they ultimately appeared upon the Statute Book, the most novel and important was one based on the analogy of a tax which had for some years been in force in the city of Frankfort, namely, the increment value duty, a tax of 20 per cent. on increases in the site

value of land accruing after the 30th April, 1909, and payable on each occasion on which the property changed hands, whether by sale or death. The three remaining duties consisted of (*a*) reversion duty—a 10 per cent. tax on the benefit accruing to a lessor by the determination of a lease, (*b*) undeveloped land duty, an annual tax of ½d. in the £ on the site value of "undeveloped" land; and (*c*) mineral rights duty, an annual tax of 1s. in the £ on the rental value of the right to work minerals. The last of these taxes was imposed in substitution for a proposal to fix a tax upon ungotten minerals which discussion had shewn to be impracticable. It was therefore dropped; but the mineral rights duty which turned out to be much the most (immediately) productive of the new group of taxes has been habitually described by the critics of these taxes as merely an additional income-tax upon a special form of property.

It was the anticipated worry and expense of these novel expedients, admittedly unproductive for the present however financially valuable they might prove in a more distant future, which, added to the concrete burden of income-tax and death duties, consolidated the opposition to the budget, and stamped it in the eyes of its friends as "democratic" and in those of its enemies as "vindictive and socialistic."

The Finance Bill was in committee from June 21st till October 6th. Great alterations amounting to entire reconstruction in Part I. relative to the land value duties were made in it during the forty-two Parliamentary days thus consumed. The formation of the Budget Protest League and of its counterblast the Budget League, testified to the interest which the proposals

had excited in the country, and as the struggle went on it appeared that public opinion in the constituencies was rallying to the support of the scheme.

It is irrelevant to the purpose of this survey to do more than allude to the political struggle into which the budget developed; and which submerged its purely financial aspect and finally led to the momentous step taken by the House of Lords in rejecting it after six days' discussion on the 30th of November on the motion that the House "is not justified in giving its consent to this Bill until it has been submitted to the judgment of the country." This action was met by a resolution passed by the House of Commons on the 2nd of December "that the action of the House of Lords in refusing to pass into law the provisions made by this House for the service of the year is a breach of the constitution and a usurpation of the rights of the Commons."

The next day Parliament was prorogued, and on the 10th of January, 1910, it was dissolved. The general election which followed realized the hopes of neither party. The Liberal Party lost its superiority over all other parties together, and the Government retained a working majority only by the aid of the Irish Nationalists and the Labour Party.

But for the purposes of the budget, as on other important issues, this majority proved in the end to be sufficient, though the internal difficulties of the Coalition, the question of the Lords' Veto, and the necessity of passing the supplementary estimates, the Army and Navy estimates, and the Army Annual Bill, made it impossible to introduce the suspended budget before Easter. But the financial difficulties

produced by the rejection of the Finance Bill had to be met, and as loans by Treasury Bills for ways and means could not be raised to run beyond the 31st of March, the Government had recourse to the Treasury (Temporary Borrowing) Act, which extended the terms of these Bills to September 30th 1910, and authorized the further suspension of the sinking fund.

On the 18th of April the Prime Minister moved a "guillotine" resolution allotting time to the various stages of the reintroduced Finance Bill, a day and a half for the preliminary resolution, two for the second reading, and one for the third reading. The excuse for this unprecedented procedure was that the proposals had already "been more carefully examined than had ever been the case in our previous history." No less than six months of Parliamentary time had ungrudgingly been given to them in the previous session, the discussion had taken place under the freest possible conditions, the closure having been very rarely applied; and they had been in principle and to a large extent in detail the subject of constant consideration during the course of the general election. Further, the proposals were "in all substantial and essential respects identical" with those approved by the late House of Commons. With the exception of certain declaratory amendments, perhaps the most interesting new provision was that for giving validity to the measures which had been taken in connection with the collection executively of taxes imposed by the Bill.

These measures deserve a word of notice. With the prorogation of Parliament on December 2nd the budget resolutions authorizing the duties, or increase

of duties, of customs and excise (tobacco, beer, spirits, the continuance of the duty on tea and the new motor spirit duties), as well as income-tax and the new scale of death duties, lapsed, and the revenue departments were faced with the task of collecting revenue without statutory authority.

With the co-operation of the traders concerned, the Customs and Excise Department succeeded in collecting as voluntary deposits the great bulk of the duties for which no authority existed under a notice issued by the board on December 3rd.

The previously existing death duties remained in *statu quo* as a body of law, but the income-tax was much more seriously affected and, while the duty under Schedule C deducted by banks, coupon dealers, etc., continued to be collected though not paid over to the revenue, so far as the collection of the tax directly assessed under Schedules A, B, D, and E was in the hands of the Government as distinguished from the District Commissioners, it was thought advisable to refrain from the usual issue of demand notes. The collection of land tax and inhabited house duty remained also in abeyance, with the result that at the close of the year £23,395,000 from these sources remained uncollected, the deficit being met by the issue of Treasury Bills under the Act above referred to.

At last, on April 19th, the Chancellor of the Exchequer rose to make his statement preparatory to the introduction of the Finance (1909-1910) Bill, 1910, on the resolution imposing the land value duties. As he was " not introducing in any sense of the term a new budget " he did not, he said, " intend

to make what is known as a budget speech," but to "make a few observations about the present financial position."

Customs and excise were apparently down by £5,500,000, a large part of which was due to the fact that the revenue had not received any part of the additional liquor licences nor the duty for motor car licences. The deficiency in tea (£131,000), had been due to forestalments, but the main deficiency had been in the spirit duty, of which forestalments accounted for a great deal, while the imposition of the additional duty had been the cause of a startling diminution in the consumption of whisky, which was estimated at between 20 and 25 per cent. The Chancellor of the Exchequer stated that he was £2,800,000 below the estimate of April last in respect of whisky. Tobacco had substantially realized the estimate, and death duties, on the other hand, including arrears, would surpass the estimate by £1,700,000, but the whole of the new taxation on stamps had been lost. Land tax and inhabited house duty would, when their collection had been completed, realize the estimate, and the same remark practically applied to the income-tax, of which £13,295,000 had been collected and £23,455,000 was outstanding.

The total revenue actually received was £131,697,000, the expenditure was £157,945,000, and the deficit was therefore £26,248,000 which it was hoped would be more than made up by the collection of arrears of revenue before the loans ran out, and would be turned into a balance of £2,963,000 on the right side.

If the budget had passed, the income-tax would

have produced £350,000 more and stamps £600,000, while £350,000 would have been saved in interest on temporary borrowing, so that the surplus would have been £4,200,000; but it must be remembered that not only had the sinking fund been reduced from £28,000,000 to £24,500,000 by the 1909 budget, but that the remainder of the new sinking fund, to the amount of £2,700,000 had been suspended by the Treasury (Temporary Borrowing) Act above mentioned. Even if this were repaid to the sinking fund there would still, on the above calculations, be a surplus in the year of over £200,000.

The restricted discussion which followed was of no great interest, the land value duties and the credit of the country were among the subjects brought up, but Mr. Gibson Bowles expressed what was on the whole the general view when he observed that the Chancellor of the Exchequer's statement "did credit to everybody, it did credit to his estimates, and it did vast credit to the taxpayers of this country, who had paid their taxes without compulsion and with readiness in order to come to the assistance of a distressed set of officials and a depleted Treasury."

The Finance Bill was then introduced and carried rapidly under the guillotine resolution, the second reading being taken on the 25th of April. The Prime Minister, who tersely summed up and commented on the whole great controversy, stated among other things that the rejection of the budget had cost the country directly £1,300,000 and, he significantly added, "indirectly a vast deal more"; and he remarked on the fact that in spite of a "very considerable reduction in the sum which we have been

in the habit of setting aside for paying off the principal of our National Debt," a reduction which he endorsed, an actual redemption amounting to no less than £12,657,000 had been effected, of which £6,970,000 for reduction of the funded debt had been provided by the sinking fund of the previous year, and nearly £6,000,000 by the revenue of the year 1909-10.

The motion for the rejection of the Bill was defeated by 324 to 231, and it passed the House of Lords after three hours' debate, Lord Lansdowne justifying the course which had been pursued but announcing that the Opposition " were bound to pass the Bill."

It received the royal assent on the 29th of April, 1910, one year to a day since its first introduction.

MR. LLOYD GEORGE'S SECOND BUDGET, 1910-11.

June 30, 1910.

On the 30th of June, 1910, Mr. Lloyd George rose to introduce another budget under circumstances, as he observed, " which are, to say the least, very unusual and I think I may say entirely without precedent." These circumstances have been indicated in the preceding pages; and they had had the result, among others, of deferring the statement for 1910-11 to a very late period in the year, and of complicating it when at last it was made by the necessity for constant references to the " very considerable direct and damaging influence " which they had produced in the finance of both the past and current years. Another feature of the budget was noted by the Prime Minister in a speech which he delivered on the income-tax resolu-

tions. It was, he said, "unique in the experience of all of us who are now living in that it makes no change either by way of extension or of reduction in the existing taxation of the country," for the reason that the proposals of the last budget had been subjected to a review in Parliament unexampled in length and in minuteness, and had only a short time ago received the assent of both Houses; and that in regard to many of the new taxes the machinery for their assessment and collection had not been got into working order.

Another remarkable point was strongly commented upon by the Opposition. The experience of the past year had exploded some time-honoured notions as to the conduct of the annual financial business of the House. It was true, as Mr. Gibson Bowles pointed out, that there only remained two duties, the tea duty and the income-tax, which were yearly; all the rest, producing 100 millions of revenue, depending upon permanent Acts of Parliament. But until the previous year it had always been held that the authority given by a resolution to levy a tax as a matter of convenience was to be clothed in as short a time as possible by an Act of Parliament. What had happened last year was accidental and exceptional; but this year the Government, for political reasons, proposed, after passing the resolution, to postpone all action in regard to the Finance Bill until November, "a very great and dangerous novelty" in our finance.

Of the £30,000,000 arrears which the Chancellor of the Exchequer had stated would be collected under the Finance Act of 1909-10, £26,796,000 had already come in, thus practically wiping out the previous year's deficit. All the arrears on spirits, tobacco,

and tea, and on the estate duty had already been collected, land tax and house duty were almost entirely cleared up, of income-tax every penny had been collected; but the super-tax machinery had not been set up nor that for the land value duties, and the biggest arrears of all were in respect of the licence duties. There was, however, not the slightest doubt that the full £2,900,000, which was regarded as the surplus on the last year's account, would be realized.

Nothing, Mr. Lloyd George remarked, had stopped the growth of the expenditure which would be very considerably increased in the coming year, expenditure largely "essential for the growth of any civilized or healthy community," for education, for old age pensions, for labour exchanges ("an unqualified success"), valuation £500,000, development grant £900,000, roads £600,000, and Ireland (for education, land purchase, congested districts, and old age pensions) £700,000. The contributions of Ireland towards the new taxes would be something like one-fifth the amount she would get out of them, if the old age pensions for last year were added. There was an increase of £5,500,000 (added to last year's increase of £3,000,000) on the Navy, and the Navy estimates, which in 1886 had been £13,000,000 (and at that figure had caused the resignation of a Conservative Chancellor of the Exchequer), would this year be £40,600,000. The total expenditure was estimated to reach £171,857,000, which, added to last year's deficit of £26,248,000 and arrears of payments to the Development and Road Improvement Funds and to the local taxation account £825,000, made a total of £198,930,000 to be provided for.

In estimating the revenue, Mr. Lloyd George, as the result of enquiries in very authoritative quarters, and of all the available indications, proceeded on the assumption (which was fully justified by the result) that this year's trade would be good, that next year's would be better, that the people would be prosperous, and therefore the revenue would shew expansion.

The most interesting point he discussed was the yield of the increased duties on spirits. "Last year our estimate was completely wrong, wrong by millions, and the only thing I can say in defence is that I was nearer the mark than anyone else." Forestalments and depletion of reserves were two temporary causes of diminished yield, but the "most important and substantial cause was diminished consumption," and comparing 1908-9 with this year there would be a drop of 10,000,000 gallons in consumption. But in spite of this the revenue from the increased duty was higher than would have been the case if the duty had remained at 11s., assuming that the diminution in consumption had continued at the average of 3 per cent. yearly. At 14s. 9d. the revenue would get £20,000,000 as against an estimated £19,498,000 at 11s., an increase of £500,000. Mr. Lloyd George laid great stress on the moral effect of the duty in limiting consumption, as shewn in the Scotch statistics of convictions for drunkenness, an argument met by the contention that a tax should be levied with a view to revenue and not to effect social reform.

Both in excise and customs a considerable increase over the net receipts of the preceding year was estimated for. Death duties were put up £2,504,000, an increase of £4,200,000 on the original estimate of

the preceding year. The estimate for the income-tax was affected by the anticipation that £3,000,000 of arrears would remain to be collected after the close of the financial year owing to the postponement of the previous year's collection. The total revenue would be £199,791,000, leaving an estimated surplus of £861,000 which would be reduced to £309,000 by the necessity of providing for the removal of the pauper disqualification in the case of old age pensions (£450,000 for the quarter from January 1st, 1910, £2,500,000 in a full year), and for a contribution to local authorities in consideration of the diminution of their revenue from whisky, to meet which Mr. Lloyd George had promised half the proceeds of the land value duties in the previous year.

He went on to refer to the " great national scheme of insurance against unemployment and against invalidity " which he now saw his way to introduce next year, a scheme on a contributory basis with a liberal state subsidy; and to claim that " last year's budget with all its accessory measures will challenge comparison with any set of measures passed by this Parliament in the aggregate of human misery they have saved." Nor had the nation been generous beyond its means, for it had been able to meet all calls and pay off debt in a manner which no other great nation had been able to rival.

The criticisms of the budget were but a faint echo of the discussions of the previous sessions, but they turned upon some points which the Chancellor of the Exchequer's speech had left uncertain. Mr. Austen Chamberlain thought that the surplus of the last year had only been obtained by the extinction of the

sinking fund which it was not proposed to refund, and that if the true revenue and expenditure, excluding arrears on both sides, were taken for the current year there would be a deficiency of something like two millions. He also criticized the permanent reduction of the sinking fund to £24,500,000 instead of to £25,000,000 as fixed in the earliest version of the 1909 budget, and the new fashion of budgeting not for one year only but for a series of years. With regard to the comparison with certain foreign countries, he held that "the untapped financial resources of these countries were much greater than the Chancellor of the Exchequer supposed," an important reflection which more than one speaker supported. Mr. Bowles, who was himself "appalled at the enormous extravagance of our expenditure," was satirical at the solicitude on this subject now beginning to be discoverable on the Unionist benches.

Economy, however, or the necessity for it, played no part in the minister's speech, nor indeed in those of most other members. Mr. Snowden, in an able and much praised speech representing the socialist point of view, was "not appalled by the total figures" of the budget and "hoped to live to see the time when the Chancellor of the Exchequer would stand at that table and propose a budget of 300 or 400 millions," and the Financial Secretary to the Treasury committed himself to the remark, considering the enormous and rapidly growing wealth of the country, that such a budget might well "in three or four years' time" be borne with no greater effort and sacrifice on the part of the taxpayer than the budget of 200 millions was borne to-day.

But the Prime Minister, taking a more serious view of the "able criticisms" of Mr. Chamberlain and others who had preferred an indictment against the finance of the Government on the ground of an excessive growth of national expenditure and the insufficient provisions for the reduction of the national liabilities, intervened in the debate with a defence on these points, comparing the items of expenditure in 1905-6 and 1910-11, and supplementing the speech of the Chancellor of the Exchequer on the question of the debt. Leaving the temporary and gradually disappearing factor of borrowings caused by the rejection of the budget out of the account, he stated the amount of the "dead weight" debt, *i.e.* funded and unfunded, as follows:

On April 1st,	1905,	-	£755,000,000
,,	1906,	-	£743,000,000
,,	1909,	-	£703,000,000
,,	1910,	-	£692,000,000

The other capital liabilities were:

On April 1st,	1906,	-	£46,000,000
and on ,,	1910,	-	£49,000,000

but these had been reduced between April 1st, 1909, and April 1st, 1910, by £2,000,000, so that the total reduction of gross capital liabilities in the year had amounted to £12,500,000. Of this about £6,000,000 had come out of the revenue of the year, and the rest by the operation of the sinking fund of previous years. In the current year there would be available £6,500,000 from the new reduced sinking fund, and £2,500,000 representing the capital portion of the terminable annuities borne on votes in respect of other capital

liabilities, total £9,000,000, not an "unsatisfactory result." "No one," he added, "has ever urged with more persistency than I have the importance of the duty of making provision against debt"; and he thought it a "matter of legitimate satisfaction" that with all the other calls on the revenue it had been possible to redeem so largely the capital liabilities of the country.

One of the most interesting financial discussions of the session arose on the consideration of the reports of the Public Accounts Committee, which had now become an annual matter, a practice which Mr. Gibson Bowles congratulated himself as having had some share in inducing the Government to institute.

There solutions for tea, income-tax, and super-tax, and for the amendment of the law relating to National Debt, Customs and Inland Revenue (including Excise) were reported and agreed, and the Finance Bill (No. 2) was presented and read the first time on July 25th, but thenceforward the Bill had an unusual career. The conference between the leaders of both parties on the constitutional question, which had been set on foot soon after the death of King Edward VII., failed to come to an agreement on November 10th, 1910, and the Government decided on an immediate dissolution on the question of the House of Lords. On the 18th November Mr. Asquith announced that the idea of withdrawing the Finance Bill—abandoned it had been said in deference to the Nationalist leader—had never entered the heads of the Government; and that the House would be asked to proceed with its essential parts, those relating to the tea duty and the income-tax, and the provisions relating to the sinking

fund. They intended that the rest should be reintroduced and discussed before the close of the financial year.

There would be a supplementary estimate of £500,000 due to the removal of the pauper disqualification for old age pensions, and the Appropriation Bill which this would necessitate. On November 21st the Prime Minister moved a resolution for the allocation of time for the abridged Finance Bill saying that the guillotine had not yet been and should not be applied to finance, on which Mr. Austen Chamberlain in attacking the resolutions remarked that the Finance Bill of 1909 had been subjected to "kangaroo closure."

The next day the Bill passed its second reading without discussion, the opposition abstaining as a protest. Two amendments were negatived in committee, and the Bill passed the House of Lords on the 24th November without debate, the omitted portions remaining over for the next session. Parliament was dissolved on the 28th of November.

On the meeting of the new Parliament, in which the Government majority remained practically unchanged, early in 1911, the necessary supplemental Finance Bill was immediately introduced in order to deal with that portion of the budget which still required consideration; and although, as indicated above, the outstanding matters were of minor importance, the debates which ensued once again strayed on to the ground so often covered in the two previous years, attention being particularly focussed on the official valuation which had then been commenced in reference to the land values duties imposed by the 1909 budget. This valuation was, indeed,

mainly responsible for the chorus of objections raised against the duties, which had now been in full force since the previous April. The amount of duty itself which had so far been paid was quite negligible, but the very considerable amount of work and expense thrown on the public in providing the necessary information to lead to the initial valuation, and in complying with all the official requirements—especially with the celebrated Form IV.—tended, in the eyes of many, to stamp the scheme as impracticable, whatever might have been its theoretical attractions. Even when the necessary information had been supplied the difficulties were by no means at an end, for the complications of the valuation itself, with its differentiations between the site covered and the site cleared, raised considerable doubt as to whether it could be relied on as forming an equitable basis for the assessment of the duty. It was, indeed, in its complicated machinery that the new increment value duty was considered, in the quarters hostile to it, to compare unfavourably with the scheme in force in Frankfort and other German towns where the tax was charged on a sale only, and then on the increment solely with reference to the gross purchase price of the land and buildings together.

Of criticisms levelled against these new duties and unconnected with the actual valuation, the most important which had so far made themselves heard were perhaps that " increment " only was looked at, no account being taken of " decrement," and that the duties themselves singled out one only (viz. land) of many forms of property for special taxation. The critics, pointing to the reduced sales which had been

recorded at the Mart in 1910, alleged that building land had become almost unsaleable, and argued that the scheme had been the direct cause of a large rise in rents as building was no longer keeping pace with the requirements of the population.

The necessity for dealing rapidly with the Revenue Bill did not, however, give much opportunity in the House of Commons for fully considering the many questions involved, though, even after working on a strict time limit, it was not until the end of March that the Bill was finally disposed of. The royal assent was given on the 31st of that month, and thus, on the very last day of the year, full legislative sanction was obtained to its financial requirements.

For two consecutive years a general election had taken place in the course of the progress of the budget, and two Acts of Parliament—the Finance Act, 1910, and the Revenue Act, 1911—had been required to dispose of the budget for 1910-11.

MR. LLOYD GEORGE'S THIRD BUDGET, 1911-12.

May 16, 1911.

THE statement of revenue and expenditure laid before the House by the Chancellor of the Exchequer when opening the budget, shewed a realized expenditure for the past year of £171,996,000—less by £1,238,000 than the estimate, in spite of supplementary estimates amounting to £895,000 for civil service (old age pensions)—and receipts amounting to £203,851,000. From this total, arrears of the previous year to make up the realized deficit of 1909-10, viz. £26,248,000,

had to be deducted, and the result was a surplus, on the two years 1909-10 and 1910-11, of £5,607,000, which would, if the arrears of income-tax for 1910-11 had been fully collected, have been nearly £8,500,000.

This result was due partly to savings in expenditure, but mainly to the expansion of the revenue, which had exceeded the estimate by £4,060,000. Mr. Lloyd George had been blamed for taking too sanguine a view of the prosperity of trade, but as a matter of fact he had " erred on the side of over caution." Sugar and tea, owing largely to clearances having been withheld in anticipation of the budget, were the only items which had failed to come up to the estimates; but beer, spirits, wine, tobacco, income-tax, Post Office, Mint, each of them constituting a good index to the condition of trade, had all exceeded the estimates, and death duties had only failed to do so because of an abnormally low death rate.

Although the surplus was derived from the operations of two financial years, and the sum taken from the (old) sinking fund last year had not been replaced, the whole of it was not to be allowed to go in reduction of debt. It was proposed to devote £1,500,000 to building sanatoria for consumption, £250,000 by way of loan for development in Uganda in connection with the recently completed railway and the supply of water for Mombasa, and £1,500,000 for the Development fund.[1] This sum, with £500,000 more from the

[1] The Development and Road Improvement Funds.

These Funds—a very interesting new departure in British finance—were constituted by the Development and Road Improvement Funds Act, 1909 (9 Ed. VII. c. 47), and by this Act the development fund was to receive out of the consolidated fund

revenue of the new year, would wipe out the statutory liability to set aside £2,500,000 to be invested for capital purposes under this fund, which it had originally been intended to spread over five years.[1] There would then remain £2,357,000 for the old sinking fund.

The expenditure for the year 1911-12 was £7,750,000 above the estimate for the year 1910-11. The Navy estimates shewed an increase of £3,789,000 (or of £4,006,000 over the actual expenditure of the previous

in the year ended March 31st, 1911, and in each of the next succeeding four years the sum of £500,000.

By § 90 of the Finance (1909-10) Act, 1910, and § 18 (3) of the Revenue Act, 1911, it was enacted that there should be paid out of the consolidated fund (Road Improvement Grant) a sum equal to the net proceeds of the duties on motor spirit and the net proceeds of the duties on licences for carriages which are affected by the former Act.

Under these provisions the following amounts have been paid into the two funds up to March 31st, 1913.

	1910-11.	1911-12.	1912-13.
1. Development Fund - - Voted in supply and issued -	£500,000 £400,000	£500,000	£1,500,000
		Total -	£2,900,000
2. Road Improvement Fund on account of net proceeds of the duties on motor spirit - -	£628,240 15 9	£613,957 5 7	£684,309 18 7
Do. carriage licences	£234,400 0 0	£595,901 17 6	£487,894 19 11
	£1,362,640 15 9	£1,209,859 3 1	£1,172,204 18 6
		Total -	£3,744,704 17 4

[1] During the year 1912-13 there was accordingly issued from the old sinking fund of 1910-11 a sum of £35,000 for sanatoria, and the whole £1,500,000 for the development fund.

year) and of £12,204,000 in three years. They would stand at £44,393,000, having risen in twenty years from £14,204,000. "I hope and believe it has reached its climax." Old age pensions had gone up from £9,790,000 (which included paupers for one quarter) to £12,415,000, more than double Mr. Asquith's original estimate. The Government had announced in 1909 their intention to recover from the Boards of Guardians the money saved to the rates by this expenditure which they had put at £1,500,000, but they now undertook the whole responsibility.

The Post Office expenditure had risen by £1,401,000, £798,000 of which was due to the taking over of the National Telephone Company; and two new items accounted for the rest. One of these was £250,000 for the payment of salaries, promised at the close of the last Parliament, of £400 per annum to members of Parliament (see *Parl. Debates*, vol. XXV., pp. 1854-5), and the other, £50,000 for the start of the National Health and Unemployment Insurance Scheme. The coronation would cost about £300,000.

As regarded revenue, Mr. Lloyd George, having made "careful enquiries as he had done last year," and encouraged by the success of his prophecy on that occasion, decided to venture on another that the "indicator of the trade barometer was set fair, with a possible increase in trade prosperity." In his estimates he "would reckon on a sunny year." The first "difficulty was spirits, volatile in more senses than one," the estimates for which had been falsified in the last two years both by lessened consumption and by the trade having exhausted their cellars rather than take spirits out of bond till they were sure

whether the 14s. 9d. duty would continue. He would still allow for a 1½ per cent. decrease in drinking, and put his estimate at £21,400,000 for spirits (customs and excise). On the old basis there would have been a consumption of 35,660,000 gallons and the revenue would have been £19,600,000. On the new there would be the larger revenue, with a consumption diminished by 6,600,000 gallons. This was a result upon which adverse criticism was difficult if not impossible. Land value duties were put at £700,000, of which the reversion duty would yield £50,000, and the mineral rights duty £400,000, neither of these depending on the valuation, and therefore not belonging strictly to the new class of duty.

Three slight alterations were proposed, the first of which, that dealing with the duty on cocoa, had some political and economic significance. Much had been made in the constituencies of the protective effect of this duty, and of the inconsistency on the part of the free trade Government in maintaining it in supposed deference to certain great cocoa and chocolate firms who were their political supporters. This was now removed, and chocolate would be subject to duty according to its ingredients, such as sugar, instead of having been taxed at the same rate as manufactured cocoa without any of these ingredients, the usual drawback being given on export. The loss to the revenue would be £45,000 in all. A small change in the liquor licence duties costing £50,000 was promised. Concessions to licencees had also, he remarked, been made in the Revenue Bill passed before Easter, which were estimated to cost something like £500,000 a year. Finally, there was a small

change in the stamp duty on marketable securities (1 per cent.) which would relieve short dated securities.

The revenue would then stand at £181,621,000, and the expenditure at £181,284,000, leaving a balance of £337,000.

Of all the budgets which had so far been presented by Mr. Lloyd George this was probably the one which attracted the least attention. Not only was this due in a great measure to the fact that, for the second year in succession, the great scheme of 1909 was to remain practically unaltered, but, by the month of May, the public mind had become so engrossed by the coming coronation festivities and, so far as attention was given at all to parliamentary matters, by the progress both of the Parliament Bill and of the National Insurance Bill that, once the budget statement was made, the proceedings on the Finance Bill (certainly as regards its early stages) passed almost unnoticed.

The first reading, and the second which was taken on the first night of the Lords' great debate on the Parliament Bill, were disposed of without any difficulty before the adjournment; and the committee stage, which had been left over as now usual until the autumn session, was not commenced until the 11th of December.

Within a week from that date the Bill was hurried through all its remaining stages and although it cannot be said that any new points of much importance were made in the debates, some interesting speeches were delivered. Dealing with an attempt to reduce the duty on tea grown in the British Empire, the Chancellor of the Exchequer made a statement

of considerable moment of his views on the general principles of national taxation which, as he said, should be so arranged as to distribute over the whole population a real interest in the national well-being by means of a real sense of responsibility for the expenditure of the year. "I have never had any sympathy," he explained, "with the idea that some one has got to be exempt because he is earning a small amount. It ought to be more or less the principle which you have in a place of worship where everyone is supposed to contribute something, however trifling, because they feel they have a kind of common interest in the common work which is going on. There ought to be the same common interest in the work of the Empire, and one way of realizing that is to get every member of the community to contribute. The only principle I would lay down would be that they ought to contribute in proportion to their means." The expression of these sentiments was well received by the opposition, who construed them as shewing a qualified approval of indirect taxation.

Apart from some strong criticism of the working of the land values duties by Mr. Pretyman who had made a special study of this subject, the most noticeable features in the final stages of the Bill were the speeches delivered on its third reading by Mr. Austen Chamberlain and by Mr. Snowden, both of whom recorded emphatic protests against the Government for the delay in disposing of the measure and for the consequent failure to allow any opportunity for adequate debate. Mr. Chamberlain accused the Government of breaking all the canons of Glad-

stonian finance, and complained that, with normal conditions once again established, no effort whatever had been made to introduce the Finance Bill at the usual time. The procedure adopted of relegating the Bill to the last moments of the autumn session had, he said, deprived the House of Commons of any opportunity of doing its duty by the country in the review of national finance, and left had no chance for the discussion of the practical working of the new principles of taxation and complicated administrative machinery introduced by the 1909 budget.

Mr. Snowden, who endorsed all Mr. Chamberlain had said in regard to the delay in dealing with the Bill, proceeded in a characteristic speech to express his own dissatisfaction and that of his followers with the existing state of the finances.

Revenue from taxation should, he held, be used not merely for the purpose of meeting necessary expenditure, but should also be applied for the purpose of bringing about a better distribution of wealth. He joined issue with the opinions expressed by the Chancellor of the Exchequer in his recent speech advocating that no one should be exempt from taxation; for, in Mr. Snowden's opinion, indirect taxation was "a violation of every just and sound principle." His speech wound up with the startling suggestion that the State should buy up the whole of the land of the country "root and branch, fully compensating the present owner," and then, in order to obtain revenue for increased national expenditure, should nationalize the railways. "I conclude," he said, "as I began by expressing my regret that more opportunity has not been given to the House of

Commons during this session to deal adequately with these proposals. The way in which the Finance Bill has been delayed until the very end of the session is only one further instance of the degradation of Parliament in these later days. Parliament has ceased to be a deliberative assembly, and if such examples as this will only bring to the country a sense of the seriousness of the position in which Parliament now is, then perhaps the present experiences will not have been altogether in vain."

The Bill, it may be added, passed through the Lords without debate although, strangely enough, it had been forwarded to them without endorsement by the Speaker as a Money Bill, and had thus reached the upper chamber in a condition which would have permitted of its rejection under the Parliament Act.

MR. LLOYD GEORGE'S FOURTH BUDGET, 1912-13.

April 2, 1912.

THE figures of this budget shewed, at last, a return to more normal conditions. The expenditure for the past year had amounted to £178,545,000 as against an estimate of £181,284,000, a saving of £2,639,000 excluding supplementary estimates of £555,000. Much of this saving arose from under-spending by the Admiralty (£1,535,000), really however only a postponement of expenditure. The revenue had reached £185,090,000, or £3,469,000 more than the estimate, for which excise (£2,562,000) and income-tax (£504,000) were principally responsible. The result was the largest "realized surplus on record"

£6,545,000. Mr. Lloyd George remarked that it would have reached £7,000,000 but for the coal strike, which had had a considerable effect on the consumption of dutiable articles in the last months of the financial year. He had predicted a "sunny year," and his "prediction had been justified not merely metaphorically but actually"; and all the taxes which were the test of good employment and prosperity had gone beyond his most hopeful expectations. Sugar, owing to high prices caused by the failure of the sugar harvest from drought, and tea had alone proved exceptions, though both had exceeded the estimates of the previous year. The most remarkable increases had been those in beer and spirits, between them £2,016,000 above the estimate. The decrease in consumption upon which it had become the habit of the Chancellor of the Exchequer to reckon, and which had been accelerated by the extra 3s. 9d. on spirits, had given place to an increase of 4 per cent. in the case of spirits; and beer, in which a decrease had been expected, had gone up by over half a million, a somewhat startling phenomenon for which more than one explanation was put forward, but which was probably accounted for simply enough by the continuation of prosperity with exceptionally fine hot weather.

The proposals submitted to Parliament in 1909, and carried, as the Chancellor of the Exchequer remarked, after "probably the fiercest political conflict that we have been engaged in since the days of the great Reform Bill, a conflict which deeply shook the constitution and in the issue profoundly modified it," had now been in operation for three years; and

the time had come to review their working. Mr. Lloyd George began by answering the "legend" that the purposes for which that budget was required had been "revolutionary, socialistic or subversive" in character. Navy, old age pensions, "enshrined since 1895 in the Unionist programme like a fly in amber," the exigencies of motor traffic, demands for agricultural development and afforestation, national insurance—these had been responsible for increases of expenditure in the three years of £10,000,000, £17,287,000 and £23,575,000 respectively, one-half of the increase in each year having been attributable to naval expenditure. There was no item in their programme in respect of which the Unionist party had resisted the contribution from the State or had tried to cut it down, they had on the contrary pressed the Government to increase these contributions.

All this expenditure had been met by the new taxation, which in the last year had reached a total of £23,900,000, while in the first two years large "sums of money" had been devoted to the reduction of debt and a surplus of five millions had accrued, part of which had been spent on sanatoria and had provided capital for the development of the resources of the Empire. The principles he had had in view in imposing this new taxation, the Chancellor of the Exchequer considered, had been justified by the result. A revenue had certainly been provided which should expand with the growing demands of his legislative programme. All classes of the community should be called on to contribute. Of the £23,900,000 he contented himself by stating that £8,000,000 had come out of "indulgences and luxuries," intoxicating liquors, tobacco

and motor taxes; and of the rest the 2d. income-tax had produced £4,900,000, super-tax £3,000,000, and death duties £6,300,000. The analysis was not exhaustive as between social classes, and it did not run on the lines of a division between income-tax and non-income-tax payers, nor on those of the traditional balance between direct and indirect taxation. Another of the propositions which he had laid down that the taxes should not be of such a character as to "hamper and handicap business" appeared to have received a triumphant vindication from events. When the budget of 1909 was introduced, "unemployment had reached about the highest figure it had attained for years in this country" and "we were passing through a period of profound depression." Soon after, "trade began to boom and unemployment to diminish. It has gone on in an unbroken record of prosperity ever since, expanding business, increasing profits, and better employment."

Such, omitting a fresh justification of the land taxes which he denied having ever relied on as the mainstay of his financial provision, at all events for the first few years, and which, in the case of the most important—the increment tax and undeveloped land tax—depended on the completion of the valuation, was the case for the new system of finance, presented not for the first time but with greater effect on this occasion by its author.

The total expenditure was put for the coming year at £186,885,000, or £5,601,000 above the estimated expenditure of the previous year, an increase almost equally due to health and unemployment insurance

on the one hand, and to the Post Office (caused by the taking over of the National Telephone Company) on the other. The estimate of revenue was complicated by the disturbing effect of the great coal strike which "even if it came to an end this week would be very serious." It had already caused a loss of £400,000 on last year's revenue; and the loss in the coming year, on spirits, beer, tobacco, and also to a certain extent on tea and sugar was calculated to amount to £800,000. But a more important question, indeed "the first consideration of the Chancellor of the Exchequer and his advisers in estimating the revenue," was this, "Is it going to be a good or bad year for trade?" Last year he had predicted good trade, and this year, after consultation as on previous occasions with the best available authorities, he had decided to do the same. Conditions at home were good, the "outcries about predatory legislation were losing their efficacy through sheer staleness," and our best customers throughout the world were prosperous. There was "nothing on the horizon which would upset the promise which the world gave of a bountiful year." Following the indications of the previous year, the Chancellor of the Exchequer estimated for an increase of 1·5 per cent. in the consumption of spirits and 2 per cent. in beer, but deductions—in the one case for excess stocks, in the other on account of the hot summer of 1911, and in both on account of the strike—brought the estimate on these heads below the actual receipts of 1911-12. Death duties were put £58,000 higher, stamps £54,000 down, land tax and house duty £50,000 and £130,000 down respectively, and

income-tax, because of the fact that £2,500,000 arrears from the preceding year had been included in last year's total, £704,000 down, in spite of the fact that for the coming year a very good year (1911) took the place in the average of a comparatively bad year (1908). The total tax revenue was put at £1,245,000 less than the actual receipts of last year. On the other hand the Post Office would produce £3,475,000 more, mainly because it would include a full year's revenue from the National Telephone service; and the total revenue for the year would, therefore, stand at £187,189,000, leaving an estimated surplus of £304,000. That left no margin for reducing taxation, but it was encouraging that in spite of the great demands for insurance and that "we were short by £500,000 which was properly attributable last year to the Admiralty" there was no need for imposing any fresh taxation.

This statement gave little opening for effective comment except on the perennial question of the land value taxes and the valuation.[1] Its "real

[1] The case against these duties and the valuation was again stated in the budget discussion in 1913 by Mr. Pretyman. Quoting an official return, he gave the total yield of the following duties since they came into operation till March 31st, 1913, as follows:

Increment value duty - - - - -	£23,254
Reversion duty - - - - - -	£70,878
Undeveloped land duty - - - -	£129,298
Mineral rights duty - - - - -	£1,234,483

The total cost of the machinery necessitated by the above duties, excluding the last, which did not depend on valuation and was of the nature of a "super-tax pure and simple," was as follows:

Valuation, including cost of collecting the duty, incidental services, cost of issuing Form IV., stationery, offices, etc., had been

outstanding feature," as Mr. Austen Chamberlain described it, was the question of the disposal of the great surplus for the year 1911-12. The Chancellor of the Exchequer proposed to devote the whole of this to " strengthening the balances " instead of allowing it to go in the ordinary course to the redemption of debt. The surplus was to be held temporarily in suspense (without prejudging what should be done with any part of it) with a view to meeting contingencies which might arise from the effect of the strike, from the under-spending of the Admiralty in the

£1,393,000. Total number of officials employed, 4,153, and their annual salaries, £492,620.

This expenditure had produced no commensurate revenue. Injury had been inflicted on the building trade, small property owners, allotment holders, and market gardeners; and great expense had been thrown upon property owners of every description. Further, the valuation when made would be too unreliable and too much wanting in uniformity to be of use as a basis of taxation, and owing to the complications of the provisions of the Act must lead to endless and costly litigation. (See discussion, April 28th, 1913, Official Report of Speeches by Captain Pretyman and the Chancellor of the Exchequer.) The Government case was that these taxes (increment and undeveloped land) had never been, and could not, from the nature of things, have been relied on for immediate revenue ; that the valuation of the United Kingdom had been estimated to cost about £2,000,000 ; that the proportion of this charge which represents the cost of collection of the duties was very small, the rest being a capital and non-recurring charge ; and that, as a result of the valuation, the yield of the death duties had increased by " many hundreds of thousands of pounds " (Parliamentary Debates, Commons, 1912, vol. xxxvii. p. 1646). " It will amount to over £1,000,000 in a very short time " (Mr. Masterman, April 29th, 1913). The valuation had stood the test of criticism and investigation well. Four and a half million hereditaments had been valued of which three and a half million had been settled, and in only five cases affecting seven hereditaments had the valuations been successfully impugned. The numbers where provisional assessments had been subject to appeal was one in every 833. After March 15th next the whole country would have been valued (Parliamentary Debates, Commons, April 28th, 1913).

expiring year, and from the threatened expansion of the German naval programme. Mr. Lloyd George supported his proposal by reading a private letter written by Sir William Harcourt in 1906 justifying the use of his surplus that year by Sir Michael Hicks-Beach for naval purposes. Mr. Austen Chamberlain at once took exception to this course. Of the Admiralty under-expenditure it was only proposed to meet £600,000 in the coming year, and six millions was altogether beyond any sum which would conceivably be required for naval purposes beyond the sum provided in the estimates; and it was unprecedented to divert a surplus from the sinking fund without stating at the time definitely to what purpose it was to be assigned. The proposal was destructive not only of the old sinking fund but of the whole basis of our finance. All financial experience had shewn, as several speakers pointed out, that the law which prescribed that at the end of the year all unexpended balances were to be surrendered by the departments and applied to the reduction of the National Debt was the only method of preserving parliamentary control and preventing departments from over-estimating their expenditure. There was really no dispute as to the principle which the Prime Minister, describing himself as an "old-fashioned financial purist," later in the session emphatically endorsed. But on the 29th of April when the resolution was discussed, the Chancellor of the Exchequer without any further explanation of his reasons adhered to his proposal, even refusing to give any pledge to return to the sinking fund such portion of the surplus as might not be required for the strike or for the extra-

ordinary needs of the Navy. By the 24th of June, however, whatever reasons may have influenced him in his decision had disappeared, and he yielded to the strong feeling which had been expressed on both sides of the house (see *e.g.* speeches by Sir F. Banbury, Mr. Faber, Mr. C. Mills, Mr. D. Mason, Sir W. Byles, Col. Williams, and in many utterances outside), and consented to allow £5,000,000 to go to the sinking fund; retaining £1,000,000 towards meeting the claims created by the new German Navy Bill and £500,000 for the expansion and development of our resources in Uganda. Mr. Chamberlain, while pointing out that the proposed allocation of the million for the Navy was exactly the same thing as the borrowing for such purposes which the Government had always boasted they would never resort to, congratulated the Chancellor of the Exchequer on his return to sounder methods of finance, observing that he infinitely preferred his "second budget statement to his first."

Financial discussion in Parliament began again this session to take a more normal course, and among the many questions raised was that of the general effect of the Government's policy on the national credit and on the price of Consols.

Mr. Lloyd George's dealings with the old sinking fund in 1909-10, and his suggestion in that year (recalled by Mr. Snowden) that all "unexpected accessions to the revenue and savings upon the estimates which had passed automatically into the old sinking fund for the liquidation of debt should in future pass into the development fund," had excited some not unnatural suspicion of his attitude on this occasion. Mr. Snowden, indeed, spoke strongly

against the ultimate decision of the Chancellor of the Exchequer, urging that the development fund was the proper destination of the surplus, and that there were many objects such as housing reform, waterways and afforestation, not to speak of insurance, to which the money might most usefully be devoted, in order to anticipate demands which would certainly in the future arise from unemployment. Mr. Hobhouse replied that the development fund had already about two millions within its reach and the Road Board two and a half millions, and intimated that the difficulty was not so much one of money as of deciding on the objects upon which money might profitably be spent. Mr. Snowden was alone in his objection to the redemption of debt; but others pointed out that there was some exaggeration in the insistence on the old sinking fund, which was a "broken reed"; that the amount by which its application over a series of years had reduced the debt was comparatively insignificant; that the record of the Unionist administration in their treatment of it did not bear comparison with that of the present or preceding Liberal Governments;[1] and that the real stand-by for the reduction of debt was the new sinking fund. Mr. Asquith and Mr. Lloyd George had often in these discussions pointed with pride, as they were well entitled to do, to the large sum by which the debt had been reduced since their accession to office; up to the end of March 1912 by £63 millions. But opposition speakers pointed out that in so far as this reduction had been effected by means of the application of surpluses to the old sinking fund, it

[1] See Table XVI. column 5.

was the result of miscalculations which had caused more revenue to be raised by taxation than was required for the estimated expenditure of the year, and that as regarded the new sinking fund (which the Government had reduced by 3½ millions) a larger proportion went automatically to redemption and a smaller part to payment of interest as years went on, and that the low price of Consols made redemption much more profitable than it had been during the years of Unionist administration.

The continuous fall in the price of Consols and its effect upon the credit of the country had long been a favourite weapon of political attack, but during the previous year it had formed the subject of much serious discussion in the press and in high financial quarters in the city of London. The discussion however, in the words of the *Times* of Feb. 5, 1912, had revealed "too much disagreement as to remedies, and even as to the possibility of devising a remedy, among experts to permit a Chancellor of the Exchequer to select and adopt any one of the schemes suggested." The question was raised in the House in this session with much the same result. The city and banking authorities viewed with apprehension the present price of Consols as having inflicted serious injury on the great financial institutions which had invested in them in the expectation that the money would be available when required, but Mr. Russell Rea observed that what might be bad for the seller was good for the buyer, and Mr. John Ward, from the labour point of view, "did not understand" a policy of "bolstering up Consols-holders." With regard to the remedy pressed upon him from many

influential quarters, an even more rapid redemption of debt, the Chancellor of the Exchequer doubted whether reduction of debt was a "dominant or very large element in the condition of our credit"; and in discussing the various causes of the low price of Consols, such as the enlargement in 1900 of the area of trustee investments (which, however, some authorities held to have ceased to be as largely operative a cause as in earlier years) put forward the very reasonable view that it was "mainly due to the great industrial prosperity throughout the world which had had the effect of driving up the rate of interest and had put down the price of gilt-edged securities." Apart from the technical side of the question, the discussion shewed much real uneasiness at the growing liabilities of the country and their effect on the national credit in a broader sense. The speeches of Mr. Chamberlain and some of his followers revealed an increasing tendency to alarm at the extent to which the fiscal margin or reserve, essential in cases of emergency, was being anticipated. Mr. Charles Mills reminded the committee that, during the period 1905-11, death duties and capital taxation had risen by 45 per cent., and income-tax by 41 per cent. Sir Frederick Banbury observed that "the old age pensions, whether right or wrong, had added a sum equal (on a 3 per cent. basis) to £400,000,000 to the National Debt," and Mr. Evelyn Cecil put on another £200,000,000 on account of the 6 millions per annum charged upon taxation for National Insurance. In the following session Mr. Sydney Arnold, in a maiden speech which was an effective defence of the financial operations of the Government, described such calculations,

which had again been referred to by Mr. Pretyman, as "fantastic" and "having no real relation whatever to facts," though his argument did not appear to touch the question of *taxation* as apart from the *contributions* of the employers and the insured persons. "I do not think that sort of contribution should be included in taxation. It is a premium, not a tax. I submit that workmen and employers get very good value for their contributions. They get value in the increased security, efficiency, and well-being of the workers. In this country, where at the present time a large proportion of the cost of pauperism under the poor rate is for consumption, sickness, and infirmity, the poor rate will unquestionably experience relief when the Insurance Act is fully in operation." This is the whole case for the legislation in question in its financial aspect. On the other side, it was to be said that while the reduction of the cost of the poor law might well be the most hopeful field for administrative action in the whole range of national expenditure, it had as yet been scarcely touched; and that as regards the total cost of insurance and old age pensions, a permanent and growing charge amounting to about forty millions annually (as estimated at one time by Mr. Lloyd George),[1] it did, in so far as it was expenditure in excess of previous expenditure on the same objects whether by the individual or the State, and was not set

[1] The following figures as to the cost of the Insurance Act were given last August by Mr. Lloyd George. *Times*, August 11, 1913. The Act "this year has raised a fund of £26,000,000; next year it will be £29,000,000. The following year, when all the benefits will be complete, it will be £31,000,000. Of that gigantic sum of £31,000,000 the workmen contribute over £11,000,000, the rest, £15,000,000 this year and £18,000,000 in 1915, is found by the State and the employers."

off by savings such as were expected under the poor law, represent an additional demand upon the resources of the population, and to that extent impair their "taxable capacity." From this point of view it had precisely the same effect as if the whole sum had been raised by taxation, properly apportioned so that the classes which benefit by this legislation should bear their full share of the cost of the premium. Whatever was the truth between these various contentions, they undoubtedly minimized the complacency with which the actual large reductions of the existing debt might be regarded, and immensely reinforced the arguments of those who held that it had now become far more necessary than at any time during the last thirty years to aim at its extinction.

The new policy has its obvious dangers in waste and extravagance which only the strictest financial criticism and control can keep within bounds,[1] but,

[1] In this connexion it may be noted that Mr. Austen Chamberlain has from the first strongly condemned the system by which the Treasury has been placed in charge of "great spending measures." Referring to the errors in the original estimates, both for old age pensions and insurance, he remarked, for instance on April 22nd, 1913 (vol. lii. p. 289): "A department which is dealing with great social reforms of this kind needs some check upon itself, and when you set the Treasury to check itself all I can say is that it is lamentably less successful than when it applies its brains and intelligence to checking other departments. I rather hope that the Government will consider whether it cannot wholly sever the administration of the Insurance Act from the Treasury . . . and allow the Treasury to revert to its proper position, not as a spending department, but as a financial department which will be a guardian and a check against extravagance; because it is the office which, in the first place, can concentrate in itself all the departments, and can compare the urgency of one with that of the other; and, in the second place, because it is the office on which falls the unpleasant duty of finding the money which is to pay for all these things."

it need hardly be added, opposition to it is sometimes apt to ignore much that might be said, even from a strictly economic point of view, in defence of the recent developments of finance. The free trade financiers of the nineteenth century may, perhaps, be reproached with having in some degree sacrificed to the desire to remove every possible fiscal burden from the shoulders of the community not only the chance of materially reducing the National Debt, but also the opportunity of raising the physical, moral, and educational level of the people.[1] The community had not responded as fully as was hoped to this policy: long continued prosperity and higher wages and lower prices had, at all events, failed to produce either the moral self-restraint or the habit of saving which might by this time have placed the poorer classes (as in France) in a position of unassailable strength. The concentration of capital in the hands of a small minority of the population, the prevalence of public and private extravagance, and the congestion of the population in the large towns, had produced evils which were felt, not by party politicians alone, to be a real danger to social stability. Tariff reform had been advocated as a remedy for some of these evils; its advocates at all events had pointed to them in justification of their proposals. Free trade statesmen on their side could not afford to neglect them; they were not satisfied with a readjustment of the burden of taxation which relieved the poorer at the expense of the richer classes, and they fell back on

[1] This point has been forcibly put by Mr. Chiozza Money on more than one occasion. (See, *e.g.* Parliamentary Debates, May 16th, 1911 and April 20th, 1913.)

an attempt to deal with the problem by drastic measures of social reform which involved, equally with tariff reform, the partial abandonment of the orthodox economic maxim of "taxation for revenue only."

It is no such easy matter as is sometimes assumed to distinguish between different forms of expenditure as being productive or unproductive; but from an economic point of view the justification of State expenditure on measures of social reform depends on whether it is successful in increasing the productive power of the nation and the efficiency of labour.[1] If this object is attained the consuming power of the community, its demand for commodities (the only foundation of commerce) and its power of satisfying that demand will be enlarged and extended, and taxable capacity will grow with growing burdens.[2] Provided always that it is possible to remain within the limits of "tolerable" taxation, the success or failure of the new departure in which time is an essential element cannot fairly be judged by the immediate fiscal result; and the extremes of optimism and of pessimism of which examples may be found in all these discussions are both perhaps premature.

In order to complete the history of this budget,

[1] See Mr. Lloyd George on the effect of such legislation on the efficiency of the people, "even as wealth-producing machines" (Parliamentary Debates, 1909, vol. iv. p. 506).

[2] Mr. Snowden considered (2nd January, 1913) that the increased prosperity of the country was due to some extent to the 13 millions for old age pensions having been abstracted from the spending power of the rich on "luxuries," and given to the working people and used to encourage the staple trades of the country. Whether, however, a mere transfer of spending power from one class to another has the effect of increasing the efficiency and consuming power of the community is the whole point at issue.

it is necessary to refer to the budget statement of April 22nd, 1913. Again the Chancellor of the Exchequer had been justified in his hopeful view of trade, for, as he stated, the year 1912-13 had been the "most prosperous year that British trade had probably ever seen." Our oversea trade was at its highest, the home trade had never reached such dimensions, and unemployment was lower than at any previous period. "The tide of affluent trade rose so high that it overwhelmed three serious obstacles in its path," the great strike which had dislocated every industry, the bad harvest in this country, and the war in the East with its menace to European peace.

The revenue had suffered from the strike to the extent of £550,000 instead of the estimated £800,000; and it had further suffered from the holding back of tea, sugar, and tobacco in anticipation of changes in the budget for 1913-14, to the extent of £430,000. The spirit duties had been satisfactory in the double sense that they had checked consumption and improved the revenue. For the four years before 1909, the consumption of spirits fell from 39¼ million to 37¾ million gallons. In the four years since that budget, the consumption had fallen by 8 million gallons, and the revenue had benefited to the extent of an additional £2,000,000. The death duties had failed to realize the estimate by £202,000, and Mr. Lloyd George again drew attention to the distribution of property as shewn by these returns. The total property passing had been £276 millions, of which one-third belonged to 292 persons, one-half to 1,300 persons, and two-thirds to 4,000 persons; but 335,000

out of 425,000 adults " had died without any property upon which it was worth anybody's while to pay the ten shillings to obtain the authority of the Inland Revenue to deal with legally." Stamps had produced over £600,000 above the estimate, and income-tax £706,000. These results shewed that, however rosy had been Mr. Lloyd George's estimate of the prospects of trade, his estimate of revenue had been kept well within the bounds of prudence.

As regards expenditure, his estimates had been much under the mark. The very serious change in the German Navy plans last summer had involved a supplementary expenditure on the Navy of nearly one million. " There were about two millions voted in respect of doctors " (National Insurance), and £500,000 for Uganda. These and other small items had necessitated supplementary estimates of £4,671,000, bringing the total estimated expenditure up to £191,556,000. The actual issues, however, amounted to £188,622,000, which with receipts amounting to £188,802,000 (or £1,613,000 more than estimated), gave a realized surplus of £180,000.

The Chancellor of the Exchequer stated that owing to savings effected in some directions and to further under-spending at the Admiralty, he had not been obliged to draw upon the £1,500,000 finally allowed by the House of Commons to be set aside out of the surplus of 1911-12 (£1,000,000 for Navy and £500,000 for Uganda), and he proposed to use £1,000,000 of this sum to enable him to balance his budget for 1913-14, the total estimated expenditure for which was put at £195,640,000. As the receipts for 1912-13 had been £188,802,000, there was an additional

revenue to be found of £6,838,000, or £7,000,000 with the slightest possible "margin." Of this sum, it was estimated that the various branches of the revenue would produce £6,023,000 which, with the million from his balances, left an estimated surplus of £185,000 (see Budget Table, p. 406).

There is one final point which should be mentioned in connection with this budget statement. In the previous year Mr. T. Gibson Bowles had brought a successful action against the Bank of England which put an end to a custom and usage which in regard to the income-tax had obtained without challenge since 1842, that of collecting the income-tax after the resolution authorizing it had been raised, and before the Finance Act embodying the resolution were carried into law. The practice was challenged by Mr. Bowles because of the delay which had occurred in each of the summers since the budget of 1909 in passing the Finance Bill, and had been declared illegal. This had necessitated the introduction of a Bill (The Provisional Collection of Taxes Bill) which, with the resolution upon which it was founded, had been discussed at considerable length during the month of April, 1913, and which legalized the practice in respect of income-tax and customs and excise duties, but only for a limited period of the session which, in the opinion of the Government, did not give sufficient time for the House "to get through its present financial business, and to give full opportunities to the House to move amendments in reference to revenue proposals." In addition to this a ruling of the Speaker declaring that the Finance Bill of 1911, into which certain amendments had been introduced, had

for this reason been brought outside the category of Money Bills under the Parliament Act had made it difficult for the Government to accept amendments to the Finance Bill. To meet this situation the Chancellor of the Exchequer announced that for the future two bills would be introduced in connection with the budget, a Finance Bill confined to the renewal of temporary taxes, and a Revenue Bill on the basis of a resolution for any amendment of the law which might be necessary. Mr. Austen Chamberlain pointed out that this would allow of the postponement until late in the session of the important discussions on the budget proposals which it had been desired to obviate, but Mr. Lloyd George in his statement had anticipated this objection by stating that with the great increase in the number of amendments to the Finance Bill which had now become usual it was impossible for a Government to carry through its taxation proposals in the middle of the session without dislocating all other business.

PART II.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	20,200,000	19,600,000	19,630,000	Tobacco duty reduced 3s. 6d. to 3s. 2d., and imposition of legal limit of water 35 %; to cost £600,000.
Excise - - -	25,292,000	25,292,000	25,620,000	
Stamps—				
Death Duties * -	7,289,000	7,289,000	8,284,203	
General - -	4,369,000	4,469,000	4,715,797	Tax on transfer of debenture stock raised from 2s. 6d.% to 10s.% to produce £120,000, and reduction from 3d. to 1d. of duty on marine insurance policies where the premium amounts to 2s. 6d.% or less, costing £20,000.
Land Tax - - -	1,065,000	1,065,000	1,030,000	
House Duty - -	1,920,000	1,920,000	1,940,000	
Income Tax - -	15,900,000	14,340,000	14,440,000	Income-tax reduced from 8d. to 7d., £1,560,000.
Total Tax Revenue -	76,035,000	73,975,000	75,660,000	
Post Office - -	8,600,000	8,600,000	8,650,000	
Telegraphs - -	1,950,000	1,950,000	1,950,000	
Crown Lands - -	370,000	370,000	390,000	
Suez Canal Shares and Sundry Loans -	1,200,000	240,000	242,479	Loss of interest under this head on the local loans to be established, £960,000.
Miscellaneous - -	3,000,000	3,000,000	2,909,775	
Total Non-Tax Revenue	15,120,000	14,160,000	14,142,254	
Totals - - -	91,155,000	88,135,000	89,802,254	£1,667,254 more than estimate.

* The item "Death Duties" comprises the probate, legacy, succession, and corporation duties.

1888.

1887. MR. GOSCHEN.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charges—	£	£	£	
Fixed Charge -	28,037,000	26,000,000	26,000,000	Reduction of sinking fund, £2,037,000.
Other Charges -	841,000	214,000	213,911	Charge of debt created for local purposes was transferred from this head to the separate and newly established Local Loans Budget, £627,000.
Other Charges on Consolidated Fund -	1,714,000	1,714,000	1,758,084	
Total Charges on Consolidated Fund -	30,592,000	27,928,000	27,971,995	
Army - - -	18,394,000	18,394,000	18,167,196	
Navy - - -	12,477,000	12,477,000	12,325,357	
Civil Services - -	17,931,000	18,261,000	18,210,000	Additional grants-in-aid: viz. main roads and turnpikes, £280,000; Arterial drainage (Ireland), £50,000.
Customs and Inland Revenue - -	2,716,000	2,716,000	2,707,746	
Post Office - -	5,421,000	5,421,000	5,403,438	
Telegraph Service -	1,950,000	1,950,000	1,940,012	
Packet „ -	699,000	699,000	697,901	
Total Supply Services -	59,588,000	59,918,000	59,451,650	
Totals - - -	90,180,000	87,846,000	87,423,645	£422,355 less than estimate.

Estimated Surplus - £289,000
Realised Surplus - £2,378,609
} For disposal of surpluses see Table XVI. and note.

This surplus (the largest since 1873-4) was due mainly to stamps (general and probate duty) and excise; the excise revenue from beer realising £8,710,000, the largest sum so far obtained under this head.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	19,800,000	19,925,000	20,067,000	Additional duty on bottled wines to yield, £125,000.
Excise - - -	25,560,000	25,505,000	25,600,000	Revision of carriage tax to cost £30,000. Hawkers' licences reduced (loss, £25,000).
Stamps—				
Death Duties -	7,840,000	6,470,000	6,598,620	One-third of probate duty surrendered to local authorities, £1,420,000. (A transitional arrangement, one-half to be ultimately transferred.)
General - -	4,900,000	5,310,000	5,671,380	Additions: (*a*) Increased succession duty, £50,000. (*b*) Increased stringency in collection, £50,000. (*c*) Tax on foreign securities and bearer bonds, £200,000. (*d*) Tax on contract notes raised from 1d. to 6d., £50,000. (*e*) Tax on companies' issues, £110,000. } = +£460,000.
Land Tax - - -	1,046,000	1,046,000	1,020,000	
House Duty - -	1,890,000	1,890,000	1,940,000	
Income Tax - -	13,820,000	12,250,000	12,700,000	Reduced from 7d. to 6d. = loss of £1,550,000. Allowance under Schedule A, £20,000.
Total Tax Revenue -	74,856,000	72,396,000	73,597,000	
Post Office - -	8,800,000	8,800,000	9,100,000	
Telegraphs - -	2,000,000	2,000,000	2,080,000	
Crown Lands - -	390,000	390,000	430,000	
Suez Canal Shares and Sundry Loans -	241,000	241,000	240,957	
Miscellaneous - -	3,000,000	3,000,000	3,024,855	
Total Non-Tax Revenue	14,431,000	14,431,000	14,875,812	
Totals - - -	89,287,000	86,827,000	88,472,812	£1,645,812 more than estimate.

N.B.—The proposed van and wheel tax, and horse tax for the relief of local taxation were introduced in a Bill which was withdrawn on Nov. 20, 1888. (See Part I. pp. 20, 22 and 23.)

This budget does not show the full effect of the Local Government changes which played so large a part in the budget speech.

Largest surplus since 1873-4. The revenue did well. Duty on bottled wines a success, also the new stamp duties. There were excesses above the estimates under the heads of Income-tax, £450,000 (yield per 1d. = £2,020,000, highest recorded); Stamps, £490,000 (one-third probate duty excluded) of which over £350,000 was from general stamps, a satisfactory proof of improving prosperity; and Post Office, £380,000.

Expenditure less than estimated owing to an over issue to the War Office in 1887-8, and to the care with which supplementary estimates continued to be avoided.

1889.

1888. MR. GOSCHEN.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
Debt Charges—	£	£	£	
Fixed Charge -	26,000,000	26,000,000	26,000,000	
Other Charges -	214,000	214,000	224,594	
Other Charges on Consolidated Fund -	1,647,000	1,647,000	1,629,986	
Total Charges on Consolidated Fund -	27,861,000	27,861,000	27,854,580	
Army - - -	16,730,300	16,730,300	15,957,738	Army expenditure includes £30,000 for ordnance factories.
Navy - - -	13,082,800	13,082,800	12,999,895	
Civil Services - -	18,145,293	17,850,293	17,872,986	Deduction for grants-in-aid of disturnpiked roads, £295,000.
Customs and Inland Revenue - -	2,745,549	2,745,549	2,718,322	
Post Office - -	5,666,666	5,666,666	5,667,849	
Telegraph Service -	2,036,836	2,036,836	1,965,000	
Packet Service - -	641,500	641,500	637,502	
Total Supply Services -	59,048,944	58,753,944	57,819,292	
Totals - - -	86,909,944	86,614,944	85,673,872	£941,072 less than estimate.

Estimated Surplus - £212,056.
Realized ,, - £2,798,940.

[£2,000,000 of this surplus was expended before the close of the financial year on payments connected with the conversion of the debt for which Mr. Goschen had taken power to borrow in 1888. Seeing that there would be a large surplus he had borrowed only a million and taken the rest from the surplus. Thus the whole amount of the cost (about three millions) would have been defrayed in a much shorter time than anticipated. The Exchequer balance, thus depleted, on March 31st was £5,592,000. It had been increased by items on account of the Mint, and the Sardinian Loan, but decreased again by advances to the Army and Navy Imperial Defence Act (£660,000) instead of borrowing fresh for the purpose.]

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	20,050,000	20,050,000	20,424,000	
Excise - - -	22,570,000	22,870,000	24,160,000	Beer duty adjusted. Specific gravity of worts on which duty was levied fixed at 1·055 instead of 1·057. Estimated gain, £300,000.
Stamps—				
Death Duties -	5,980,000	6,780,000	6,884,538	New estate duty. An additional 1 % on all estates over £10,000. Certain measures to prevent evasion. Period respecting donations *inter vivos* extended from 3 months to 1 year. Total gain, £800,000.
General - -	5,800,000	5,800,000	6,175,462	
Land Tax - -	1,035,000	1,035,000	1,035,000	
House Duty - -	1,925,000	1,925,000	1,965,000	
Income Tax - -	12,550,000	12,550,000	12,770,000	
Total Tax Revenue -	69,910,000	71,010,000	73,414,000	
Post Office - -	9,350,000	9,350,000	9,450,000	
Telegraphs - -	2,230,000	2,230,000	2,320,000	
Crown Lands - -	430,000	430,000	430,000	
Suez Canal Shares and Sundry Loans	280,000	280,000	279,155	
Miscellaneous - -	2,850,000	2,850,000	3,411,161	
Total Non-Tax Revenue	15,140,000	15,140,000	15,890,316	
Totals - -	85,050,000	86,150,000	89,304,316*	£3,154,316 more than estimate.

* To compare figures with those of 1888-9 it is necessary to note that the receipts under the head of excise do not include £2,970,000, the yield of the licences handed over to local authorities, nor do death duties receipts include the portion of the probate duty, viz. £2,266,000, paid to local authorities. Also the year 1889-90 was the first year in which the costs of managing the Post Office Savings Banks, etc., borne on the Savings Banks Fund, were taken as appropriations in aid of the Post Office vote instead of being credited to miscellaneous revenue—a sum in this year of £325,000.

1890.

1889. MR. GOSCHEN.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
Debt Charges—	£	£	£	
Fixed Charge -	26,000,000	25,000,000	25,000,000	Permanent fixed charge reduced. £1,000,000 estimated as saving on conversion.
Other Charges -	220,000	220,000	226,760	
Naval Defence Fund -	1,430,000	1,430,000	1,428,571	Naval Defence Act, 1889.
Other Consolidated Fund Charges -	1,624,000	1,624,000	1,634,194	
Total Charges on Consolidated Fund -	29,274,000	28,274,000	28,289,525	
Army - - -	17,336,000	17,336,000	17,360,912	
Navy - - -	13,685,000	13,685,000	13,842,241	
Civil Services - -	15,739,000	15,739,000	15,589,990	
Customs and Inland Revenue - -	2,680,000	2,680,000	2,654,891	
Post Office - -	5,453,000	5,453,000	5,463,205	
Telegraph Service -	2,136,000	2,136,000	2,176,000	
Packet ,, -	664,000	664,000	664,000	
Total Supply Services -	57,693,000	57,693,000	57,751,239	
In connection with Reduction of Debt	—	—	42,551	
Totals - - -	86,967,000	85,967,000	86,083,315	£116,315 more than estimate.

Estimated Surplus - £183,000.
Realised ,, - £3,221,001.

Heavy supplementary estimates of £756,000 (Navy, £350,000, Civil Service, £267,000), but savings reduced excess of expenditure over estimate to £116,000.

Revenue good on all heads, *e.g.* exceeding the estimate on excise by £1,290,000; customs, £374,000; and stamps, £480,000 (of which general stamps £357,000, shewing prosperity and activity in business). £2,500,000 of surplus due to causes which could not have been foreseen: (1) enormous consumption of alcoholic liquor, especially spirits, and, of spirits, rum (£1,800,000); and (2) seignorage on silver (£774,000).

Expenditure diminished by the discontinued grants-in-aid.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	20,836,000	19,116,000	19,480,000	(1) Tea duty reduced 6d. to 4d. per lb.; estimated cost, £1,500,000. (2) Currant duty reduced 7s. to 2s. per cwt.; estimated cost, £210,000. (3) Gold and silver plate duty abolished, £10,000.
Excise - - -	24,108,000	23,722,000	24,788,000	3d. per barrel duty (equivalent to the raising of the S.G. in 1889-90). Yield to go to local authorities, £386,000. Additional 6d. per gal. was also imposed on spirits, calculated to produce £918,000, and be paid to the Local Taxation Accounts.
Stamps—				
Death Duties - -	7,502,000	7,502,000	7,484,643	
General Stamps -	6,140,000	6,070,000	5,975,357	Repeal of gold and silver plate duties, £70,000.
Land Tax - - -	1,030,000	1,030,000	1,030,000	
House Duty - -	2,000,000	1,460,000	1,570,000	Extension of exemptions, £540,000.
Income Tax - -	13,200,000	13,200,000	13,250,000	
Total Tax Revenue -	74,816,000	72,100,000	73,578,000	
Post Office - -	9,750,000	9,670,000	9,880,000	Reduction of Colonial and Indian postal rates from 5d. to 2½d. per ½ oz., £80,000.
Telegraphs - -	2,470,000	2,470,000	2,380,000	
Crown Lands - -	430,000	430,000	430,000	
Suez Canal Shares and Sundry Loans -	240,000	240,000	241,935	
Miscellaneous - -	2,700,000	2,700,000	2,979,177	
Total Non-Tax Revenue	15,590,000	15,510,000	15,911,112	
Totals - - -	90,406,000	87,610,000	89,489,112	£1,879,112 more than estimate.

A very prosperous year in spite of the Baring crisis, which, however, affected the stamp duties. Immense revenue from drink again (total £30,000,000). Tea and tobacco did well—Tea £208,754 and Tobacco £261,102 above estimated receipts.

1891.

1890. MR. GOSCHEN.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charges—	£	£	£	
Fixed Charge -	25,000,000	25,000,000	25,000,000	
Other Charges -	214,000	214,000	207,000	
Naval Defence Fund -	1,430,000	1,430,000	1,428,571	Naval Defence Act, 1889.
Exchequer Contribution to Ireland -	—	40,000	—	This is the equivalent grant to Ireland in respect of the transfer of the revenue from licences to local authorities in Great Britain.
Barrack Construction	—	300,000	225,000	
Allowance on Silver Plate - - -	—	120,000	95,107	In connection with repeal of duty.
Other Consolidated Fund Charges -	1,664,000	1,664,000	1,747,426	
Total Consolidated Fund Services - -	28,308,000	28,768,000	28,703,104	
Army - - -	17,728,000	17,828,000	17,560,023	Grant of £100,000 for volunteer equipment.
Navy - - -	13,787,000	13,787,000	14,125,358	
Civil Services - -	15,661,000	15,851,000	16,040,131	Includes £160,000, pleuro-pneumonia compensation and £30,000, additional sum in respect of Bechuanaland.
Customs and Inland Revenue - -	2,668,000	2,668,000	2,643,447	
Post Office - -	5,548,000	5,548,000	5,682,562	
Telegraph Service -	2,244,000	2,244,000	2,272,000	
Packet Service - -	683,000	683,000	706,230	
Total Supply Services -	58,319,000	58,609,000	59,029,751	
Totals - - -	86,627,000	87,377,000	87,732,855	£355,855 more than estimate.

Estimated Surplus - £233,000.
Realized „ - £1,756,257.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	19,700,000	19,700,000	19,736,000	
Excise - - -	25,300,000	25,300,000	25,610,000	
Stamps—				
Death Duties -	7,591,000	7,591,000	8,281,850	
General - - -	5,859,000	5,859,000	5,418,150	
Land Tax - -	1,030,000	1,030,000	1,050,000	
House Duty - -	1,450,000	1,450,000	1,434,000	
Income Tax - -	13,750,000	13,750,000	13,810,000	
Total Tax Revenue -	74,680,000	74,680,000	75,340,000	
Post Office - -	10,120,000	10,120,000	10,150,000	
Telegraphs - -	2,480,000	2,480,000	2,480,000	
Crown Lands - -	430,000	430,000	430,000	
Suez Canal Shares and Sundry Loans -	220,000	220,000	222,000	
Miscellaneous - -	2,500,000	2,500,000	2,373,000	
Total Non-Tax Revenue	15,750,000	15,750,000	15,655,000	
Totals - -	90,430,000	90,430,000	90,995,000	£565,000 more than estimate.

Surplus due partly to saving on expenditure. There had been supplementary estimates, £660,000 for education and post office, but short issues on other heads, such as barracks, produced a net saving of £336,000. No great expansion of revenue, but the 2 per cent. estimated increase had been exceeded as regards tobacco (£222,000 more than estimate), tea and alcohol. Influenza had sent up probate duty.

1892.

1891. MR. GOSCHEN.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charges—	£	£	£	
Fixed Charge -	25,000,000	25,000,000	25,000,000	
Other Charges -	200,000	200,000	200,000	
Naval Defence Fund -	1,430,000	1,430,000	1,429,000	Naval Defence Act, 1889.
Other Charges on Consolidated Fund -	1,665,000	1,665,000	1,656,000	
Barracks Construction		500,000	325,000	These two charges imposed instead of remitting taxation, in order to retain revenue which would be required to meet the full cost of "free" education in subsequent years.
Gold Coinage - -		400,000	400,000	
Total Charges on Consolidated Fund - -	28,295,000	29,195,000	29,010,000	
Army - - -	17,545,000	17,545,000	17,259,000	
Navy - - -	14,215,000	14,215,000	14,150,000	
Civil Services - -	16,516,000	17,436,000	17,501,000	Final estimate includes grant of £920,000 for "free" education, and £125,000 to relieve distress in Ireland, and to improve communications in the Highlands of Scotland.
Supplementary -	125,000	125,000		
Customs and Inland Revenue - -	2,694,000	2,694,000	2,692,000	
Post Office - -	5,924,000	5,924,000	6,126,000	
Telegraph Service -	2,422,000	2,422,000	2,489,000	
Packet Service - -	708,000	708,000	701,000	
Total Supply Services	60,149,000	61,069,000	60,918,000	
Totals - - -	88,444,000	90,264,000	89,928,000	£336,000 less than estimate.

Estimated Surplus - £166,000.

Realized ,, - £1,067,000.

1892-

(BUDGET. 11TH APRIL,

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	19,900,000	19,900,000	19,715,000	Wine duty adjusted to 2s. per gallon all round.
Excise - - -	25,452,000	25,452,000	25,360,000	Not expected to affect revenue.
Stamps—				
Death Duties -	8,200,000	8,200,000	8,387,848	
General - - -	5,360,000	5,360,000	5,417,152	
Land Tax - - -	1,040,000	1,040,000	1,040,000	
House Duty - -	1,410,000	1,410,000	1,410,000	
Income-Tax - -	13,400,000	13,400,000	13,470,000	
Total Tax Revenue -	74,762,000	74,762,000	74,800,000	
Post Office - - -	10,400,000	10,400,000	10,400,000	
Telegraphs - -	2,560,000	2,560,000	2,480,000	
Crown Lands - -	435,000	435,000	430,000	
Suez Canal Shares and Sundry Loans -	220,000	220,000	220,000	
Miscellaneous -	2,100,000	2,076,000	2,065,000	Reduction of patent fees, estimated to cost £24,000.
Total Non-Tax Revenue	15,715,000	15,691,000	15,595,000	
Totals - -	90,477,000	90,453,000	90,395,000	£58,000 less than estimate.

A very close correspondence between the estimate and the result. Mr. Goschen was proved to be justified in his belief that a decline was about to set in. He had accordingly estimated revenue at £542,000 less than the receipts in 1891-2. The smallness of the budget surplus was due to increase in the Education Vote (free education) and the post office, for which supplementary estimates had been required.

1893.

1892. MR. GOSCHEN.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charges—	£	£	£	
Fixed Charge -	25,000,000	25,000,000	25,000,000	
Other Charges -	200,000	200,000	200,000	
Naval Defence Fund -	1,429,000	1,429,000	1,429,000	
Other Charges on Consolidated Fund -	1,683,000	1,683,000	1,677,000	
Total Charge on Consolidated Fund - -	28,312,000	28,312,000	28,306,000	
Army - - -	17,631,000	17,631,000	17,542,000	
Navy - - -	14,240,000	14,240,000	14,302,000	
Civil Services - -	17,791,000	17,791,000	17,780,000	
Customs and Inland Revenue - -	2,649,000	2,649,000	2,616,000	
Post Office - -	6,345,000	6,345,000	6,513,000	
Telegraph Service -	2,556,000	2,556,000	2,595,000	
Packet Service - -	729,000	729,000	721,000	
Total Supply Services -	61,941,000	61,941,000	62,069,000	
Totals - -	90,253,000	90,253,000	90,375,000	£122,000 more than estimate.

Estimated Surplus - £200,000.

Realized „ - £20,000.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	19,650,000	19,650,000	19,707,000	
Excise - - -	25,100,000	25,100,000	25,200,000	
Stamps—				
Death Duties -	8,140,000	8,140,000	7,616,632	
General - - -	5,460,000	5,460,000	5,243,368	
Land Tax - - -	1,035,000	1,035,000	1,035,000	
House Duty - -	1,425,000	1,425,000	1,425,000	
Income-Tax - -	13,400,000	15,150,000	15,200,000	Income-tax increased from 6d. to 7d. Estimated yield, £1,750,000.
Total Tax Revenue -	74,210,000	75,960,000	75,427,000	
Post Office - -	10,600,000	10,600,000	10,470,000	
Telegraphs - -	2,480,000	2,480,000	2,540,000	
Crown Lands - -	430,000	430,000	420,000	
Suez Canal Shares and Sundry Loans -	220,000	220,000	219,000	
Miscellaneous - -	1,950,000	1,950,000	2,058,000	
Total Non-Tax Revenue	15,680,000	15,680,000	15,707,000	
Totals - -	89,890,000	91,640,000	91,134,000	£506,000 less than estimate.

This was also a year of close estimates. There were supplementary estimates of £591,000 net (Army £195,000 and Civil Services, Education, £396,000), but in spite of this the budget estimate of expenditure was nearly realized, owing to savings on other heads. There was a financial crisis in America and Australia, a coal strike and wages dispute in the cotton trade, and stamps failed to realize the budget estimate by £295,000; while death duties

1894.

SIR W. V. HARCOURT.)

EXPENDITURE.

	ESTIMATE.		RESULT: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charges—	£	£	£	
Fixed Charge -	25,000,000	25,000,000	25,000,000	
Other Charges -	200,000	200,000	200,000	
Naval Defence Fund -	1,429,000	1,429,000	1,429,000	
Other Consolidated Fund Charges -	1,691,000	1,691,000	1,681,000	
Total Charge on Consolidated Fund - -	28,320,000	28,320,000	28,310,000	
Army - - -	17,803,000	17,803,000	17,940,000	
Navy - - -	14,240,000	14,240,000	14,048,000	
Civil Services - -	18,130,000	18,130,000	18,226,000	
Customs and Inland Revenue - -	2,706,000	2,706,000	2,671,000	
Post Office - -	6,791,000	6,791,000	6,721,000	
Telegraph Service -	2,739,000	2,739,000	2,664,000	
Packet Service - -	735,000	735,000	723,000	
Total Supply Services -	63,144,000	63,144,000	62,993,000	
Totals - -	91,464,000	91,464,000	91,303,000	£161,000 less than estimate.

Estimated Surplus - £176,000.
Deficit - - - £169,000.

fell below it by £445,000. But receipts from beer duties had topped all previous records, and there was no sign of diminished consumption in other items. The Naval Defence Act of this year (c. 45), among other things, increased the expenditure for dockyard shipbuilding, under the Act of 1889, by £1,350,000. The Coinage Act (55 and 56 Vic. c. 1) provided an additional £250,000 for coinage fund. (See 1891-2, which provided £400,000).

(BUDGET. 16TH APRIL, 1894.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	19,850,000	20,010,000	20,115,000	Additional beer (6d. a barrel) and spirit (6d. a gallon) duties=£160,000.
Excise - - -	25,060,000	26,240,000	26,050,000	Do.. do. =£1,180,000.
Estate, etc., Duties -	7,840,000	8,840,000	8,754,343	New estate duty to produce a further £1,000,000. (For rates see Table XI. col. 3.)
Stamps - - -	5,240,000	5,240,000	5,685,657	
Land Tax - - -	1,030,000	1,030,000	1,015,000	
House Duty - -	1,440,000	1,440,000	1,435,000	
Income-Tax - -	15,200,000	15,530,000	15,600,000	Income-tax raised from 7d. to 8d. to yield £1,780,000. Counterbalanced by extension of reliefs and abatements, costing £1,450,000. Net increase £330,000.
Total Tax Revenue -	75,660,000	78,330,000	78,655,000	
Post Office - -	10,570,000	10,570,000	10,760,000	
Telegraphs - -	2,620,000	2,620,000	2,580,000	
Crown Lands - -	420,000	420,000	410,000	
Suez Canal Shares and Sundry Loans -	136,000	396,000	413,000	Suez Canal shares: dividends to produce £260,000.
Miscellaneous - -	1,550,000	1,839,000	1,866,000	Payment from naval defence account, £289,000 added.
Total Non-Tax Revenue	15,296,000	15,845,000	16,029,000	
Totals - -	90,956,000	94,175,000	94,684,000	£509,000 more than estimate.

Close estimates again. Customs exceed estimate by £105,000. Excise less than estimate by £190,000, the net receipts from spirits being £330,704 less than estimated.

New estate duty £100,000 less than estimate.

The expenditure very slightly exceeded the estimate in spite of supplementary estimates of £704,000 (£446,000 civil services, and £250,000 for the Navy).

Surplus appropriated to liquidation of permanent debt (old sinking fund).

1895.

SIR W. V. HARCOURT.)

EXPENDITURE.

	ESTIMATE.		RESULT: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charge—	£	£	£	
Fixed Charge -	25,000,000	25,000,000	25,000,000	
Naval Defence Fund -	1,429,000	—	—	This annuity for Naval Defence Act comes to an end.
Other Charges on Consolidated Fund -	1,653,000	1,653 000	1,643,000	
Total Charges on Consolidated Fund -	28,082,000	26,653,000	26,643,000	
Army - - -	18,081,000	18,006,000	17,900,000	£75,000 interest on Imperial defence loan saved.
Navy - - -	17,366,000	17,296,000	17,545,000	£70,000 interest on naval defence loan saved.
Civil Services - -	18,688,000	18,688,000	18,915,000	
Customs and Inland Revenue - -	2,677,000	2,677,000	2,646,000	
Post Office - -	7,038,000	7,038,000	6,869,000	
Telegraph Service -	2,777,000	2,777,000	2,674,000	
Packet Service - -	749,000	749,000	727,000	
Total Supply Services -	67,376,000	67,231,000	67,276,000	
Totals - -	95,458,000	93,884,000	93,919,000	£35,000 more than estimate.

Estimated Surplus - £291,000.

Realized „ - £765,000.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs	20,240,000	20,240,000	20,756,000	
Excise	25,450,000	25,950,000	26,800,000	Additional 6d. on beer renewed from July 1st, 1895, as a permanent duty in order to avoid deficit. Estimated yield, £500,000 in nine months. (Extra spirit duty abandoned.)
Estate, etc., Duties	10,100,000	10,140,000	11,600,000	
Stamps	5,700,000	5,660,000	7,350,000	
Land Tax	1,020,000	1,020,000	1,015,000	
House Duty	1,450,000	1,450,000	1,495,000	
Income-Tax	15,530,000	15,530,000	16,100,000	
Total Tax Revenue	79,490,000	79,990,000	85,116,000	
Post Office	10,900,000	10,900,000	11,380,000	
Telegraphs	2,620,000	2,620,000	2,840,000	
Crown Lands	415,000	415,000	415,000	
Suez Canal Shares and Sundry Loans	687,000	687,000	690,000	
Miscellaneous	1,550,000	1,550,000	1,533,000	
Total Non-Tax Revenue	16,172,000	16,172,000	16,858,000	
Totals	95,662,000	96,162,000	101,974,000	£5,812,000 more than estimate.

Liberal Government defeated in June. Sir Michael Hicks-Beach became Chancellor of the Exchequer.

Financially a "most remarkable year," as Sir Michael Hicks-Beach described it on 16th April, 1896.

Revenue larger than in any previous twelve months. Expenditure largest since the great war. A year of records. Estate duty produced £1,460,000 more than estimated; stamps £1,690,000.

Supplementary estimates, £2,517,000, Army (£671,000), Navy (£1,100,000), Civil Services (£739,000).

Surplus went to Naval Works (59 Vic. c. 6).

1896.

SIR W. V. HARCOURT.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charge—	£	£	£	
Fixed Charge -	25,000,000	25,000,000	25,000,000	
Other Charges on Consolidated Fund -	1,625,000	1,625,000	1,601,000	
Total Charges on Consolidated Fund -	26,625,000	26,625,000	26,601,000	
Army - - -	17,984,000	17,984,000	18,460,000	
Navy - - -	18,701,000	18,701,000	19,724,000	Naval expenditure for the first time above Army estimate. (The largest estimate submitted since 1815.) Up by £1,156,000 over last year.
Civil Services - -	19,298,000	19,298,000	19,800,000	Increase of £383,000 over issues of previous year, owing to increased expenditure on education.
Customs and Inland Revenue - -	2,702,000	2,702,000	2,702,000	
Post Office - -	7,134,000	7,134,000	7,018,000	
Telegraph Service -	2,805,000	2,805,000	2,744,000	
Packet Service - -	732,000	732,000	715,000	
Total Supply Services -	69,356,000	69,356,000	71,163,000	
Totals - -	95,981,000	95,981,000	97,764,000	£1,783,000 more than estimate.

Estimated Surplus - £181,000.
Realized „ - £4,210,000.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	21,020,000	21,020,000	21,254,000	
Excise - - -	27,000,000	27,000,000	27,460,000	
Estate, etc., Duties -	10,950,000	9,775,000	10,830,000	Amendment of Estate Duty Law (exemption of certain pictures, prints, books, etc.) to cost £200,000. Six months grants under Agricultural Land Rating Bill, £975,000.
Stamps - - -	6,700,000	6,700,000	7,350,000	
Land Tax - - -	1,000,000	900,000	920,000	Amendment of Land Tax Law, remitting land tax in excess of 1s. in the £, and permitting redemption of the tax for thirty times the sum assessed. To cost £100,000.
House Duty - -	1,475,000	1,475,000	1,510,000	
Income-Tax - -	16,200,000	16,200,000	16,650,000	
Total Tax Revenue -	84,345,000	83,070,000	85,974,000	
Post Office - -	11,660,000	11,660,000	11,860,000	
Telegraphs - -	2,940,000	2,940,000	2,910,000	
Crown Lands - -	415,000	415,000	415,000	
Suez Canal Shares and Sundry Loans -	695,000	695,000	694,000	
Miscellaneous - -	1,700,000	1,700,000	2,097,000	
Total Non-Tax Revenue	17,410,000	17,410,000	17,976,000	
Totals - -	101,755,000	100,480,000	103,950,000	£3,470,000 more than estimate.

The exchequer receipts shewed the following excesses over estimates: Customs £234,000 (of which rum gave £161,297), excise £460,000 (beer, £191,094, spirit duty, £213,412 net receipts figures), death duties £1,055,000 (mostly estate duty), stamps £650,000, income-tax £450,000, Mint 316,000.

Large supplementary estimates again (£2,279,000). Grant to Egyptian Government £799,000, Army £400,000, Navy £513,000, Civil Services £560,000.

Surplus applied to purposes of the Military Works Act (60 Vic. c. 7).

1897.

SIR MICHAEL HICKS-BEACH.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charge—	£	£	£	
Fixed Charge -	25,000,000	25,000,000	25,000,000	
Other Charges on Consolidated Fund -	1,660,000	1,660,000	1,643,000	
Total Charges on Consolidated Fund -	26,660,000	26,660,000	26,643,000	
Army - - -	18,056,000	18,056,000	18,270,000	
Navy - - -	21,823,000	21,823,000	22,170,000	
Egyptian Government Grant-in-aid - -	—	—	799,000	
Civil Services - -	19,795,000	19,795,000	20,045,000	
Customs and Inland Revenue - -	2,735,000	2,735,000	2,716,000	
Post Office - -	7,242,000	7,242,000	7,150,000	
Telegraph Service -	3,009,000	3,009,000	2,961,000	
Packet Service - -	727,000	727,000	723,000	
Total Supply Services -	73,387,000	73,387,000	74,834,000	
Totals - -	100,047,000	100,047,000	101,477,000	£1,430,000 more than estimate.

Estimated Surplus - £433,000.
Realized „ - £2,473,000.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	21,500,000	21,500,000	21,798,000	
Excise - - -	27,750,000	27,750,000	28,300,000	
Estate, etc., Duties -	9,700,000	9,700,000	11,100,000	
Stamps - - -	7,000,000	7,000,000	7,650,000	
Land Tax - - -	900,000	900,000	940,000	
House Duty - -	1,500,000	1,500,000	1,510,000	
Income-Tax - -	16,900,000	16,900,000	17,250,000	
Total Tax Revenue -	85,250,000	85,250,000	88,548,000	
Post Office - -	12,210,000	11,935,000	12,170,000	Postal reform. Loss of revenue £316,000.
Telegraphs - -	2,960,000	2,919,000	3,010,000	
Crown Lands - -	415,000	415,000	415,000	
Suez Canal Shares and Sundry Loans -	750,000	750,000	734,000	
Miscellaneous - -	1,775,000	1,775,000	1,737,000	
Total Non-Tax Revenue	18,110,000	17,794,000	18,066,000	
Totals - -	103,360,000	103,044,000	106,614,000	£3,570,000 more than estimate.

This surplus, £2,500,000 of which was devoted to public buildings, was due to continued trade prosperity, jubilee festivities and over-cautious estimates of death duties and income-tax. Customs, according to the net receipts, as given in the finance accounts (which differ slightly from the Exchequer receipts given in the budget statements), exceeded the estimate by £292,000, of which tobacco was responsible for £233,909; excise by £573,000, of which beer accounted for £388,126, and spirits for £146,726.

1898.

SIR MICHAEL HICKS-BEACH.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charge—	£	£	£	
Fixed Charge - -	25,000,000	25,000,000	25,000,000	
Other Charges on Consolidated Fund -	1,650,000	1,650,000	1,886,000	
Total Charges on Consolidated Fund - -	26,650,000	26,650,000	26,886,000	
Army - - -	18,141,000	18,341,000	19,330,000	To strengthen garrison in South Africa £200,000. To strengthen Navy £500,000.
Navy - - -	21,838,000	22,338,000	20,850,000	
Civil Services - -	20,169,000	20,895,000	21,560,000	Grants to voluntary schools £616,000, and necessitous board schools £110,000.
Customs and Inland Revenue - -	2,762,000	2,762,000	2,745,000	
Post Office - -	7,577,000	7,627,000	7,592,000	Postal reform. Increase of expenditure £50,000.
Telegraph Service -	3,178,000	3,178,000	3,226,000	
Packet Service - -	750,000	750,000	747,000	
Total Supply Services -	74,415,000	75,891,000	76,050,000	
Totals - -	101,065,000	102,541,000	102,936,000	£395,000 more than estimate.

Estimated Surplus - £503,000.
Realized „ - £3,678,000.

There were excesses over the estimates in the net receipts from the estate duties of £1,486,000; stamps £598,245, and income-tax £271,377. There had, as stated in the text, been supplementary estimates £2,352,000 (Army £1,290,000, Civil Services £921,000) balanced by under-spending on contract shipbuilding, on account of the engineering strike, which had caused the Exchequer issues to the Admiralty to fall short of the grants by £1,488,000.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	22,200,000	21,080,000	20,850,000	Duty on manufactured tobacco reduced by 6d. a lb., including a temporary rebate on tobacco cleared for manufacture before May 15th.
Excise - - -	28,950,000	28,950,000	29,200,000	£1,120,000 loss to revenue.
Estate, etc., Duties -	10,950,000	10,670,000	11,400,000	(Revision of legacy and succession duties, costing £280,000 dropped.)
Stamps - - -	7,600,000	7,600,000	7,630,000	
Land Tax - - -	930,000	925,000	770,000	It was finally provided that land tax should be remitted when the owner's income fell below £160, and half when the income fell below £400.
House Duty - -	1,570,000	1,570,000	1,600,000	
Income-Tax - -	17,800,000	17,700,000	18,000,000	Income-tax abatement on incomes not exceeding £700, viz.: above £400 and not exceeding £500, 30% or £150; above £500 and not exceeding £600, 20% or £120; above £600 and not exceeding £700, 10% or £70.
Total Tax Revenue -	90,000,000	88,495,000	89,450,000	
Post Office - -	12,600,000	12,600,000	12,710,000	
Telegraphs - -	3,140,000	3,140,000	3,150,000	
Crown Lands - -	430,000	430,000	430,000	
Suez Canal Shares and Sundry Loans -	715,000	715,000	713,000	£100,000 loss to revenue.
Miscellaneous - -	1,730,000	1,730,000	1,883,000	
Total Non-Tax Revenue	18,615,000	18,615,000	18,886,000	
Totals- - -	108,615,000	107,110,000	108,336,000	£1,226,000 more than estimate.

The discrepancy between net and Exchequer receipts, explained on p. 420, is emphasized in this budget. The former exceeded the latter by £708,226, due to abnormal clearances during the last few days of 1898-9 (tea estimated at £100,000 and tobacco £610,000 from anticipation of possible increases). This caused a revenue surplus on the figures of *net receipts* in customs of £478,226, of which tea was accountable for £103,504 and tobacco £363,726; whereas, according to budget figures of *Exchequer receipts*, customs fell short

1899.

SIR MICHAEL HICKS-BEACH.)

EXPENDITURE.

	ESTIMATE.		RESULT: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charge—	£	£	£	
Fixed Charge -	25,000,000	25,000,000	25,000,000	
Other Charges on Consolidated Fund -	2,010,000	2,010,000	1,592,000	
Payments to Local Taxation Accounts -	—	—	452,000	
Total Charges on Consolidated Fund -	27,010,000	27,010,000	27,044,000	
Army - - -	19,221,000	19,221,000	20,000,000	
Navy - - -	23,778,000	23,778,000	24,068,000	
Civil Services - -	21,793,000	21,793,000	22,025,000	
Customs and Inland Revenue - -	2,836,000	2,836,000	2,816,000	
Post Office - -	8,002,000	8,002,000	8,030,000	
Telegraph Service -	3,365,000	3,365,000	3,347,000	
Packet Service - -	824,000	824,000	820,000	
Total Supply Services -	79,819,000	79,819,000	81,106,000	
Totals- - -	106,829,000	106,829,000	108,150,000	£1,321,000 more than estimate.

Estimated Surplus - £281,000.
Realized „ - £186,000.

of the estimate by £230,000 (tobacco £210,000). The main cause of the revenue surplus was therefore in death duties £730,000 (largely from legacy and succession duties) and income-tax £300,000.

There were supplementary estimates amounting to £1,986,000 (Army £885,000, Navy £350,000, Civil Services £649,000), so that the total actual expenditure was really less than the total estimated expenditure (including supplementary estimates) by £665,000.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	21,350,000	21,770,000	23,800,000	Changes as revised by resolution of May 12th: *Wine duties* increased 6d. a gallon, and for wines not exceeding 30% of proof spirit 3d. Addition of 6d. to surtax on sparkling wines imported in bottle. Surtax of 1s. a gallon on still wines imported in bottle, irrespective of alcoholic strength. Surtax of 1s. a gallon on spirits imported in bottle. First estimate = £420,000. After modifications. = £350,000.
Excise - - -	29,850,000	29,850,000	32,100,000	
Estate Duties - -	11,150,000	11,150,000	14,020,000	
Stamps - - -	7,600,000	8,050,000	8,500,000	*Stamp duties* increased on companies' share capital 2s. to 5s. per cent. Letters of allotment of stocks or shares not less than £5, from 1d. to 6d. New stamp duties on nominal value of all documents representing foreign or colonial bonds, stocks and shares not previously taxed. Extension of existing duty on stock and share certificates to instruments passing on delivery. Mortgage duty of 2s. 6d. per cent. on loan capital or debenture stock created when no instrument securing the capital which already bears the duty. To produce £450,000.
Land Tax - - -	800,000	800,000	790,000	
House Duty - -	1,650,000	1,650,000	1,670,000	
Income-Tax - -	18,300,000	18,300,000	18,750,000	
Total Tax Revenue -	90,700,000	91,570,000	99,630,000	
Post Office - -	13,200,000	13,200,000	13,300,000	
Telegraphs - -	3,300,000	3,300,000	3,350,000	
Crown Lands - -	450,000	450,000	450,000	
Suez Canal Shares and Sundry Loans -	787,000	787,000	834,000	
Miscellaneous - -	1,850,000	1,850,000	2,276,000	
Total Non-Tax Revenue	19,587,000	19,587,000	20,210,000	
Totals - -	110,287,000	111,157,000	119,840,000	£8,683,000 more than estimate.

The revenue figures were very remarkable, in spite of the fact that they include £710,000 (tea £100,000, tobacco £610,000) duties collected in 1898-9 and held over till this year, and of some heavy withdrawals from bonded warehouses early in 1900. Customs were £2,030,000 above the estimate, excise £2,250,000, death duties £2,870,000, stamps £450,000, income-tax £450,000. It was the most prosperous year of the whole series. The financial measures taken on October 23rd, 1899, on the outbreak of the war, are described in the text, pp. 147-8. £10,000,000 was voted on that occasion, and £13,000,000 more in February, 1900, before the first financial statement for 1900-1901 was made by the Chancellor of the Exchequer on March 5th, 1900.

1900.

SIR MICHAEL HICKS-BEACH.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charges—	£	£	£	
Fixed Charge -	25,000,000	23,000,000	23,000,000	Fixed charge reduced by £2,000,000.
Other Charges (War Bills) - - -	—	—	217,000	
Other Consolidated Fund Charges -	1,603,000	1,603,000	1,585,000	
Payments to Local Taxation Accounts	1,147,000	1,147,000	1,150,000	
Total Charges on Consolidated Fund -	27,750,000	25,750,000	25,952,000	
Army (including Ordnance Factories) -	20,617,000	20,617,000	43,600,000	(Supplementary estimate £23,047,000.)
Navy - - -	26,595,000	26,595,000	26,000,000	
Civil Services - -	22,180,000	22,180,000	22,530,000	(Supplementary estimate £698,000.)
Customs and Inland Revenue - -	2,813,000	2,813,000	2,800,000	
Post Office - -	8,553,000	8,553,000	8,480,000	
Telegraph Service -	3,638,000	3,638,000	3,601,000	
Packet Service - -	781,000	781,000	760,000	
Total Supply Services -	85,177,000	85,177,000	107,771,000	
Totals - -	112,927,000	110,927,000	133,723,000	£22,796,000 more than estimate.

Estimated Surplus, £230,000. Actual Deficit, £13,883,000

(met by (1) Issue of Treasury Bills, Treasury Bill Act, 1899 £8,000,000;
(2) Instalment in respect of War Loan, 1900 - - £2,550,000;
(3) Temporary Draft on Balance - - - £3,333,000).

REVENUE.

	Estimate.		Result: Exchequer Receipts	
	Provisional Estimate, March 5th, on basis of existing taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	20,718,000	23,620.000	26,262,000	Increase of 2d. per lb. on tea duty to produce £1,700,000. Increase on tobacco duties, 4d. per lb. on unmanufactured tobacco, 6d. per lb. on cigars to yield £1,000,000. Additional 1s. per barrel on beer to give £2,000. 6d. per gallon on spirits to produce £200,000. (Customs.)
Excise - - -	31,000,000	33,550,000	33,100,000	Additional 1s. per barrel on beer to produce £1,750,000. Additional 6d. per gallon on spirits to bring in £800,000. (Excise.)
Estate, etc., Duties -	13,000,000	13,000,000	12,980,000	
Stamps - - -	8,550,000	8,550,000	7,825,000	(A stamp proposal to impose a fixed duty of 1s. on contract notes passing at all produce exchanges, expected to yield £150,000, had to be abandoned.)
Land Tax - - -	800,000	800,000	755,000	
House Duty - -	1,650,000	1,650,000	1,720,000	
Income-Tax - -	19,000,000	25,800,000	26,920,000	4d. on the income-tax to produce additional £6,800,000 in the year.
Total Tax Revenue -	94,718,000	106,970,000	109,562,000	Total estimated produce of new taxation £12,252,000
Post Office - -	13,800,000	13,800,000	13,800,000	
Telegraphs - -	3,550,000	3,550,000	3,450,000	
Crown Lands - -	450,000	450,000	500,000	
Suez Canal Shares, etc.	850,000	850,000	830,000	
Miscellaneous - -	1,900,000	1,900,000	2,243,000	
Total Non-Tax Revenue	20,550,000	20,550,000	20,823,000	
Totals - -	115,268,000	127,520,000	130,385,000	£2,865,000 more than estimated, but with exception of income-tax (£1,120,000) almost entirely due to large forestalment of dutiable articles.

Ordinary and War Expenditure in above statement distinguished—	*Estimate.*	*Actual Issues.*
Expenditure, exclusive of war charges, provided in above budget was - - - - - - - - - -	£111,395,000	
Or including supplementary statements and estimates -	116,494,000	£114,972,000
The war charges in budget had been—		
Interest on war debt - - - - - - -	£869,000	
Grants to meet war charges (supply) - - -	37,797,000	
The supplementary war charges provided for in July and December, 1900, were—		
Interest on war debt - - - - - - -	500,000	
Supply services - - - - - - -	29,440,000	
Making a total for war charges of—		
(1) Interest on debt - - - - - - -	1,369,000	1,383,000
(2) Supply services - - - - - - -	67,237,000	67,237,000
Total estimated war charges for year 1900-1 - - -	£68,606,000	£68,620,000
Grand Totals for year 1900-1 - - - - - -	£185,100,000	£183,592,000

1901.

SIR MICHAEL HICKS-BEACH.)

EXPENDITURE.

	ESTIMATE.		RESULT: Exchequer Issues.	
	Provisional estimate of March 5th on basis of 1899-1900 Expenditure.	After proposed Changes.		
Debt Charges—	£	£	£	
Fixed Charge -	23,000,000	18,360,000	18,453,000	Sinking fund suspended, thus reducing expenditure by £4,640,000.
Interest on War Loans - -	250,000	869,000	1,383,000	
Other Charges on Consolidated Fund -	1,600,000	1,600,000	1,569,000	
Payments to Local Taxation Accounts	1,150,000	1,150,000	1,152,000	
Total Charges on Consolidated Fund -	26,000,000	21,979,000	22,557,000	
Army - - -	61,500,000	61,500,000	91,710,000	Ordinary Army charges £23,703,000. War charges: estimated in Budget, £37,797,000; actual issues, £67,237,000.
Navy - - -	27,523,000	27,523.000	29,520,000	
Civil Services - -	22,839,000	22,839,000	23,500,000	
Customs and Inland Revenue - -	2,833,000	2,833,000	2,834,000	
Post Office - -	8,844,000	8,844,000	8,963,000	
Telegraph Service -	3,770,000	3,770,000	3,737,000	
Packet Service - -	773,000	773,000	771,000	
Total Supply Services -	128,082,000	128,082,000	161,035,000	
Totals - -	154,082,000	150,061,000	183,592,000	£33,531,000 more than estimate.

Estimated Deficit, £22,541,000. Actual Deficit, £53,207,000

Supplementary statements, revising the estimate of expenditure, were made on July 30th and December 11th, 1900. By the first, supplementary grants for supply services were voted of £13,309,000, of which £3,000,000 was for military operations in China, and £336,000 for civil services. This raised the estimated deficit to £35,850,000. By the second, the charge on consolidated fund was raised by £500,000, on account of new war debt, and by new supplementary grants of £15,500,000 for South Africa, and £500,000 for China. These raised the estimated deficit to £52,350,000, and with the deficit of 1899-1900, £13,882,000, to a total of £66,232,000, which was to be met by the various measures for borrowing authorized by Parliament.

(The total aggregate estimated expenditure of the year, including local taxation accounts £9,631,000, and expenditure under the Barracks, Naval and Military Works Acts, etc., £4,989,000, amounted to £194,490,000.)

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs	23,600,000	30,800,000	30,993,000	Import duty on sugar 4s. 2d. per cwt. to yield £5,100,000. Coal duty 1s. a ton, at first expected to yield £2,100,000, was subsequently, owing to concessions in August, estimated to give £800,000 less.
Excise	33,100,000	33,100,000	31,600,000	
Estate, etc., Duties	14,000,000	14,000,000	14,200,000	
Stamps	8,000 000	8,000,000	7,800,000	
Land Tax	750,000	750,000	725,000	
House Duty	1,750,000	1,750,000	1,775,000	
Income-Tax	30,000,000	33,800,000	34,800,000	Increase of 2d. in the £ expected to yield additional £3,800,000 in the year.
Total Tax Revenue	111,200,000	122,200,000	121,893,000	Ultimate estimated produce of new taxation £10,200,000.
Post Office	14,300,000	14,300,000	14,300,000	
Telegraphs	3,450,000	3,450,000	3,490,000	
Crown Lands	475,000	475,000	455,000	
Suez Canal Shares and Sundry Loans	830,000	830,000	870,000	
Miscellaneous	2,000,000	2,000,000	1,990,000	
Total Non-Tax Revenue	21,055,000	21,055,000	21,105,000	
Totals	132,255,000	143,255,000*	142 998,000	£543,000 more than estimate.

* Reduced by £800,000, coal duties concession, to £142,455,000.

Ordinary and war expenditure in above table distinguished—

		Estimate.	*Actual Issues.*
Total ordinary expenditure, including £1,031,000 supplementary estimates	—	£123,763,000	£122,325,000
I. Interest on war debt	3,250,000		
II. Supply services—war	58,230,000		
	£61,480,000		
Supplementary Estimates, Army	£5,000,000		
Grant-in-aid, Transvaal	6,500,000		
Grant to Earl Roberts	100,000		
	£11,600,000		
Making total for war charges		73,080,000	73,197,000
Grand Totals		£196,843,000	£195,522,000

1902.

SIR MICHAEL HICKS-BEACH.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
Debt Charges—	£	£	£	
Fixed Charge -	23,000,000	18,360,000	18,319,000	The sinking fund was again suspended, and expenditure thus diminished by £4,640,000, but the interest, £1,250,000, on new loan was added.
Interest on War Loans	2,000,000	3,250,000	3,367,000	
Other Charges on Consolidated Fund -	1,650,000	1,650,000	1,644,000	
Payment to Local Taxation Accounts -	1,150,000	1,150,000	1,153,000	
Total Charges on Consolidated Fund -	27,800,000	24,410,000	24,483,000	
Army - - -	88,260,000	88,260,000	92,542,000	Ordinary charges on peace footing estimated at £30,030,000.
Navy - - -	30,876,000	30,876,000	31,030,000	
Civil Services - -	23,630,000	23,630,000	30,590,000	
Customs and Inland Revenue - -	2,890,000	2,890,000	2,955,000	
Post Office - -	9,329,000	9,329,000	9,240,000	
Telegraph Service -	4,036,000	4,036,000	4,010,000	
Packet Service - -	781,000	781,000	762,000	
Total Supply Services -	159,802,000	159,802,000	171,039,000	
Totals - -	187,602,000	184,212,000†	195,522,000	£11,310,000 more than April estimate. £4,191,000 more than August estimate.

† Total estimated expenditure was, by supplementary estimates introduced in August (Civil Service and Revenue Departments £7,019,000, and grant to Earl Roberts £100,000) brought up to £191,331,000.

Estimated deficit to be met out of loan of £60,000,000 in Consols.

The original estimated deficit - - - - - - - -	£40,957,000
was, on the August balance-sheet, raised to - - -	48,876,000
Actual deficit - - - - - - - - - - -	52,524,000

The revenue results were not unsatisfactory. A customs excess was caused by a satisfactory yield of the tea duty, and the success of the sugar duty, which realized over 1¼ millions more than the estimate, while tobacco was half a million less than the estimate. Excise was down by 1½ millions, spirits and beer being responsible for the decline. (Tobacco and spirits had suffered from forestalment in the preceding year.) The income-tax had produced 1 million above the estimate.

No real decline in prosperity yet.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	32,800,000	35,450,000	34,433,000	An import duty of 3d. per cwt. on corn, and 5d. on grain products was calculated to yield £2,650,000.
Excise - - -	32,700,000	32,700,000	32,100,000	
Estate, etc., Duties -	13,200,000	13,200,000	13,850,000	
Stamps - - -	8,200,000	8,700,000	8,200,000	(A proposal to increase duty on cheques to 2d., which was estimated to yield £500,000, had to be abandoned owing to general opposition.)
Land Tax - - -	740,000	740,000	725,000	
House Duty - -	1,760,000	1,760,000	1,825,000	
Income-Tax - -	36,600,000	38,600,000	38,800,000	Increase in income-tax from 1s. 2d. to 1s. 3d. in the £. Extra penny to bring in 2 millions in the year.
Total Tax Revenue -	126,000,000	131,150,000	129,933,000	
Post Office - -	14,800,000	14,800,000	14,750,000	
Telegraphs - -	3,630,000	3,630,000	3,630,000	
Crown Lands - -	475,000	475,000	455,000	
Suez Canal Shares, etc.	880,000	880,000	958,000	
Miscellaneous - -	2,000,000	2,000,000	1,826,000	
Total Non-Tax Revenue	21,785,000	21,785,000	21,619,000	
Totals - -	147,785,000	152,935,000*	151,552,000	£633,000 less than estimate.

* Subsequently put at £152,185,000.

Ordinary and war expenditure in above table distinguished—

		Estimate.	*Actual Issues.*
Total expenditure, excluding war charges and including £771,000 supplementary estimates, civil services - - - - - -		£130,180,000	£129,352,000
War charges—			
I. Interest on war debt - - -	4,400,000		
II. Supply, including supplementary estimate, grant-in-aid of revenues, Transvaal and Orange River Colonies, £8,250,000, and £50,000 to Lord Kitchener - - -	50,850,000		
		55,250,000	55,132,000
Grand Totals, - - - - - - -		£185,430,000	£184,484,000

1903.

SIR MICHAEL HICKS BEACH.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
Debt Charges—	£	£	£	
Fixed Charge	23,000,000	18,360,000	23,000,000	Sinking fund, £4,640,000, proposed to be suspended, was restored on cessation of hostilities on June 1st.
Interest on War Loans	3,650,000	4,400,000	4,282,000	Includes £750,000, interest on fresh debt to be created.
Other Charges on Consolidated Fund	1,645,000	1,645,000	1,633,000	
Payments to Local Taxation Accounts	1,155,000	1,155,000	1,156,000	
Total Charges on Consolidated Fund	29,450,000	25,560,000	30,071,000	
Army	69,665,000	69,665,000	69,440,000	
Navy	31,255,000	31,255,000	31,170,000	
Civil Services	26,448,000	26,448,000	36,200,000	Includes grant-in-aid of revenues of Transvaal and Orange River Colony £10,800,000, and grant to Lord Kitchener £50,000.
Customs and Inland Revenue	3,039,000	3,039,000	3,040,000	
Post Office	9,762,000	9,762,000	9,630,000	
Telegraph Service	4,211,000	4,211,000	4,162,000	
Packet Service	779,000	779,000	771,000	
Total Supply Services	145,159,000	145,159,000	154,413,000	
Totals	174,609,000	170,719,000†	184,484,000	£8,125,000 more than estimate.

† There was added to this to meet contingencies, £17,750,000 (viz. terminal charges, forces in South Africa, £16,750,000, for constabulary in South Africa, 4000 men eight months, £750,000, and grant to West Indian sugar colonies £250,000), making total estimated expenditure £188,469,000.

After the conclusion of peace, a revised balance-sheet was presented, June 4th, 1902. By the abandonment of the cheque duty, £500,000, and concessions on corn duty, £250,000, the estimated revenue was reduced to £152,185,000.

On the expenditure side, the sinking fund was restored, and the sum provided for contingencies was dropped, except as regards the constabulary in South Africa and the West Indian grants, thus diminishing expenditure by £12,110,000, and reducing the expenditure estimate to £176,359,000 and the estimated deficit to £24,174,000.

Deficit finally estimated at £24,174,000.
Actual deficit - - - £32,932,000, met out of Consols loan of 32 millions.

Revenue: customs £767,000 less than estimate, of which sugar and tea were down by £371,293 and £474,517 respectively (net receipts); excise £600,000 less than estimate (beer £236,110, spirits £335,641 down, net receipts); estate duty £650,000 more than estimate; income-tax £200,000 more than estimate. Excess expenditure caused by the supplementary provisions made for Transvaal, etc.

(BUDGET. 23RD APRIL, 1903.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	36,640,000	34,640,000	33,850,000	Corn duty to be repealed from 1st July, 1903. Loss of 2 millions. Actual receipts £790,000 less than estimate.
Excise - - -	32,700,000	32,700,000	31,550,000	
Estate, etc., Duties -	13,300,000	13,300,000	13,000,000	
Stamps - - -	8,400,000	8,400,000	7,500,000	
Land Tax - - -	750,000	750,000	725,000	
House Duty - -	1,850,000	1,850,000	1,925,000	
Income-Tax - -	39,000,000	30,500,000	30,800,000	Income-tax reduced 4d. in the £, from 1s. 3d. to 11d, involving estimated loss of £8,500,000. (£10,400,000 in a full year.)
Total Tax Revenue -	132,640,000	122,140,000	119,350,000	
Post Office - -	15,300,000	15,300,000	15,450,000	
Telegraphs - -	3,800,000	3,800,000	3,700,000	
Crown Lands - -	445,000	445,000	460,000	
Suez Canal Shares and Sundry Loans -	935,000	935,000	983,000	
Miscellaneous - -	1,650,000	1,650,000	1,603,000	
Total Non-Tax Revenue	22,130,000	22,130,000	22,196,000	
Totals - -	154,770,000	144,270,000	141,546,000	£2,724,000 less than estimate.

The following War Charges are included in above Table—

I. Interest on War Debt - - - - - - -	£4,500,000
II. Grants to Army in South Africa and China - - -	4,250,000
Grant to Army in Somaliland - - - - -	250,000
Total - - -	£9,000,000

The corresponding total for 1902-3 had been £55,132,000.

(First Peace Year.)

Mr. C. T. RITCHIE.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charges—	£	£	£	
Fixed Charge -	23,000,000	27,000,000	27,000,000	The interest on the war debt (4¼ millions) to be brought within the fixed debt charge, but owing to the saving of £1,250,000 in interest effected by the conversion scheme (½%) having taken full effect, and in view of probable payments from the Transvaal, the total, 27½ millions, was reduced to 27 millions.
Interest on War Loans - -	4,500,000			
Other Charges on Consolidated Fund -	1,640,000	1,763,000	1,624,000	Includes provision for Ireland development grant, £123,000; this sum, however, was subsequently included as a charge in civil service supplementary estimates under 3 Ed. VII. c. 23.
Payments to Local Taxation Accounts	1,156,000	1,156,000	1,157,000	
Total Charges on Consolidated Fund -	30,296,000	29,919,000	29,781,000	
Army - - -	34,500,000	34,500,000	36,677,000	
Navy - - -	34,457,000	34,457,000	35,476,000	
Civil Services - -	26,561,000	26,561,000	26,870,000	
Customs and Inland Revenue - -	3,113,000	3,113,000	3,085,000	
Post Office - -	10,068,000	10,068,000	9,758,000	
Telegraph Service -	4,549,000	4,549,000	4,528,000	
Packet Service - -	787,000	787,000	786,000	
Total Supply Services -	114,035,000	114,035,000	117,180,000	
Totals - -	144,331,000	143,954,000	146,961,000	£3,007,000 more than estimate.

Estimated Surplus - £316,000. Actual Deficit - £5,415,000.

This large deficit due partly to too optimistic estimates and depressed trade: Customs £790,000 less than estimate (Exchequer receipts figures); tea £209,705, and tobacco £127,059 more than estimate, and sugar £274,087 less than estimate (net receipts figures). Excise £1,150,000 less than estimate (Exchequer receipts figures); beer £372,953, and spirits £784,858 less than estimate (net receipts figures), or including customs £1,101,676 for spirits. Death duties £300,000 less, stamps £900,000 less, income-tax £300,000 more. Partly to increased expenditure which had necessitated supplementary estimates of £2,700,000 (Army), £1,270,000 (Navy), £641,000 (Civil Services).

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	33,900,000	36,450,000*	35,730,000	Tea duty. Increase of 2d. per lb., estimated to yield additional 2 millions. Tobacco. (1) Imported stripped to pay 3d. per lb. extra; (2) Imported cigars to pay "luxury" duty of 6d., cigarettes 1s.; (3) Moisture limit raised to 32%. Drawback rate varied. These changes expected to yield £550,000 additional. [A rebate of 1½d. per lb. on the increased duty on stripped tobacco, paid on or after July 19th, if the tobacco was deposited in a bonded warehouse before April 20th, was allowed as a concession. This would cost £200,000, and a further reduction of £20,000 was made in respect of delivery of goods from bonded warehouses. No alteration was made in the budget estimate.]
Excise - - -	31,500,000	31,500,000	30,750,000	
Estate, etc., Duties -	13,000,000	13,000,000	12,350,000	
Stamps - - -	7,550,000	7,550,000	7,700,000	
Land Tax - - -	725,000	750,000	750,000	
House Duty - -	1,925,000	1,900,000	2,000,000	
Income-Tax - -	28,000,000	30,000,000	31,250,000	Income-tax increased from 11d. to 1s. Extra penny to give 2 millions in 1904-5. (Full year's yield 2½ millions.)
Total Tax Revenue -	116,600,000	121,150,000	120,530,000	
Post Office - -	15,950,000	15,950,000	16,100,000	
Telegraphs - -	3,750,000	3,750,000	3,830,000	
Crown Lands - -	450,000	450,000	470,000	
Suez Canal Shares and Sundry Loans -	960,000	960,000	1,014,000	
Miscellaneous - -	1,350,000	1,350,000	1,426,000	
Total Non-Tax Revenue	22,460,000	22,460,000	22,840,000	
Totals - -	139,060,000	143,610,000	143,370,000	£20,000 less than finally estimated. See note.*

* Concessions were made after this estimate, costing £220,000 to the Exchequer. Final estimate for customs therefore was £36,230,000.

The surplus was mainly due to savings in expenditure: £534,000 on Civil Services (or including £151,000 supplementary, £685,000), and £175,000 on Army. The revenue almost exactly realized the estimate, but customs had realized £500,000 and excise £750,000 less than estimated, and income-tax £1,250,000 more. A loss of £650,000 on death duties had been made up by small increases on other heads. In customs tea was

1905.

MR. AUSTEN CHAMBERLAIN.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
Debt Charge—	£	£	£	
Fixed Charge - -	27,000,000	27,000,000	27,000,000	Increased from £23,000,000 in 1902-3 by inclusion of interest on war loans.
Other Charges on Consolidated Fund -	1,640,000	1,640,000	1,608,000	
Payments to Local Taxation Accounts	1,160,000	1,160,000	1,157,000	
Total Charges on Consolidated Fund -	29,800,000	29,800,000	29,765,000	
Army - - -	28,900,000	29,400,000	29,225,000	Includes £500,000 for Somaliland.
Navy - - -	36,889,000	36,889,000	36,830,000	
Civil Services - -	27,984,000	27,984,000	27,450,000	
Customs and Inland Revenue - -	3,104,000	3,104,000	3,093,000	
Post Office - -	10,201,000	10,201,000	10,198,000	
Telegraph Service -	4,716,000	4,716,000	4,660,000	
Packet Service - -	786,000	786,000	735,000	
Total Supply Services -	112,580,000	113,080,000	112,191,000	
Totals - -	142,380,000	142,880,000	141,956,000	£924,000 less than estimate.

Estimated Surplus - £730,000.
Realized „ - £1,414,000.

£228,000 less, spirits £627,000 less, sugar £156,000 more, tobacco £214,767 more than estimated; and the great deficiencies in excise were on beer £421,168, and spirits £393,000.

Supplementary estimates for £201,000 (£151,000 for civil services).

(BUDGET, 10TH APRIL, 1905.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	35,600,000	34,050,000	34,475,000	The additional 2d. on tea imposed last year to be taken off, involving a loss to revenue of £1,550,000 this year.
Excise - - -	30,200,000	30,200,000	30,230,000	
Estate, etc., Duties -	13,000,000	13,000,000	12,970,000	
Stamps - - -	8,000,000	8,000,000	8,180,000	
Land Tax - - -	750,000	750,000	720,000	
House Duty - -	1,950,000	1,950,000	1,950,000	
Income-Tax - -	31,000,000	31,000,000	31,350,000	
Total Tax Revenue -	120,500,000	118,950,000	119,875,000	
Post Office - -	16,500,000	16,500,000	16,880,000	
Telegraphs - -	4,050,000	4,050,000	4,130,000	
Crown Lands - -	470,000	470,000	480,000	
Suez Canal Shares and Sundry Loans -	1,034,000	1,034,000	1,099,000	
Miscellaneous - -	1,450,000	1,450,000	1,514,000	
Total Non-Tax Revenue	23,504,000	23,504,000	24,103,000	
Totals - -	144,004,000	142,454,000	143,978,000	£1,524,000 more than estimate.

Customs Exchequer receipts £425,000 more than estimated (sugar produced £477,953 more than estimated, tea £105,000 less); stamps £180,000 more; income-tax £350,000 more; post office and telegraphs £460,000 more. There was a saving of £963,000 on army expenditure, £347,000 civil services (with a supplementary estimate of £163,000), and £124,000 on telegraphs.

1906.

MR. AUSTEN CHAMBERLAIN.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
Debt Charge—	£	£	£	
Fixed Charge -	27,000,000	28,000,000	28,000,000	The fixed charge increased by 1 million, in order to create a sinking fund in connection with the new issue of Exchequer bonds for 10 millions.
Other Charges on Consolidated Fund -	1,620,000	1,620,000	25,000 1,624,000	£25,000 expense incurred in issuing new Exchequer bonds.
Payments to Local Taxation Accounts	1,160,000	1,160,000	1,157,000	
Total Charges on Consolidated Fund -	29,780,000	30,780,000	30,806,000	
Army - - -	29,813,000	29,813,000	28,850,000	
Navy - - -	33,389,000	33,389,000	33,300,000	
Civil Services - -	28,614,000	28,614,000	28,430,000	
Customs and Inland Revenue - -	3,161,000	3,161,000	3,148,000	
Post Office - -	10,721,000	10,721,000	10,630,000	
Telegraph Service -	4,772,000	4,772,000	4,648,000	
Packet Service - -	782,000	782,000	700,000	
Total Supply Services -	111,252,000	111,252,000	109,706,000	
Totals - -	141,032,000	142,032,000	140,512,000	£1,520,000 less than estimate.

Estimated Surplus - £422,000.
Realized „ - £3,466,000.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	34,230,000	32,230,000	32,930,000	Tea duty reduced 1d. per lb., estimated at first to cost £920,000, but subsequently, on date being put forward to May 14th, £80,000 more, or £1,000,000 in all. Repeal of export duty on coal to cost 1 million.
Excise - - -	30,200,000	30,200,000	30,350,000	
Estate, etc., Duties -	13,200,000	13,200,000	14,400,000	
Stamps - - -	8,150,000	8,150,000	7,950,000	
Land Tax - - -	700,000	700,000	710,000	
House Duty - -	1,950,000	1,950,000	1,890,000	
Income-Tax - -	31,500,000	31,500,000	31,600,000	
Total Tax Revenue -	119,930,000	117,930,000	119,830,000	
Post Office - -	17,500,000	17,395,000	17,170,000	Extension of postal facilities and modifications of various postal charges, estimated to cost £105,000.
Telegraphs - -	4,350,000	4,350,000	4,255,000	
Crown Lands - -	480,000	480,000	520,000	
Suez Canal Shares and Sundry Loans -	1,100,000	1,100,000	1,098,000	Decrease due to falling off in Suez Canal share receipts.
Miscellaneous - -	1,500,000	1,500,000	1,941,000	
Total Non-Tax Revenue	24,930,000	24,825,000	24,984,000	
Totals - -	144,860,000	142,755,000	144,814,000	£2,059,000 more than estimate.

1907.

Mr. H. H. ASQUITH.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to estimates presented.	After proposed changes.		
Debt Charge—	£	£	£	
Fixed Charge -	28,000,000	28,500,000	28,500,000	Sinking Fund increased by £500,000.
Other Charges on Consolidated Fund -	1,685,000	1,685,000	1,679,000	
Payments to Local Taxation Accounts	1,160,000	1,160,000	1,157,000	
Total Charges on Consolidated Fund -	30,845,000	31,345,000	31,336,000	
Army - - -	29,796,000	29,796,000	27,765,000	
Navy - - -	31,869,000	31,869,000	31,434,000	
Civil Services - -	29,317,000	29,452,000	29,118,000	Estimates provided for grant in relief of education rates, £135,000, for necessitous school districts.
Customs and Inland Revenue - -	3,212,000	3,212,000	3,179,000	
Post Office - -	16,747,000	16,747,000	16,583,000	
Telegraph Service -				
Packet Service - -				
Total Supply Services -	110,941,000	111,076,000	108,079,000	
Totals - -	141,786,000	142,421,000	139,415,000	£3,006,000 less than estimate.

Estimated Surplus - £334,000
(stated at £414,000 by Mr. Asquith before alteration of date of reduction of tea duty).
Realized Surplus - £5,399,000.

Surplus due to the tax revenue shewing under every head, except general stamps and land tax, substantial increases. Chief items were:

(1) Coal duty (7 months) - - - - £345,000 above estimate.
(2) Death duties - - - - - 1,200,000 „
(3) Mint - - - - - - - 385,000 „
And to savings of - - - - - - 2,031,000 on Army.
„ „ - - - - - - 435,000 „ Navy.
„ „ - - - - - - 714,000 „ Civil Services.

(There had been a supplementary estimate of £380,000 for Civil Services.)

REVENUE

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	31,740,000	31,740,000	32,490,000	
Excise - - -	30,600,000	30,600,000	35,720,000	
Estate, etc., Duties -	13,600,000	14,200,000	19,070,000	Increase in rates of estate duty, estimated to produce in present year £600,000, and ultimately £1,200,000 annually. See Table XI. col. (4).
Stamps - - -	8,000,000	8,000,000	7,970,000	
Land Tax - - -	700,000	700,000	730,000	
House Duty - -	1,900,000	1,900,000	1,960,000	
Income-Tax - -	32,500,000	30,500,000	32,380,000	Income-tax reduced from 1s. to 9d. in £, on earned incomes of persons whose total income does not exceed £2,000. To cost £1,250,000. Delay in getting in tax owing to more complicated machinery estimated at £750,000.
Total Tax Revenue -	119,040,000	117,640,000	130,320,000	
Post Office - -	17,600,000	17,600,000	17,880,000	
Telegraphs - -	4,400,000	4,400,000	4,420,000	
Crown Lands - -	500,000	500,000	520,000	
Suez Canal Shares and Sundry Loans -	1,100,000	1,100,000	1,190,000	
Miscellaneous - -	1,550,000	1,550,000	2,208,000	
Total Non-Tax Revenue	25,150,000	25,150,000	26,218,000	
Totals - -	144,190,000	142,790,000*	156,538,000	£3,703,000 more than estimate.

* Adding revenue formerly paid to local taxation accounts to col. 2 of the revenue table, viz.—

Customs - - - -	£183,000
Excise - - - -	5,365,000
Estate Duties - - -	4,497,000
	£10,045,000

and adding this total to £1,160,000 payable to local taxation accounts in col. 2 of the expenditure table, the total estimated revenue became - - £152,835,000
and expenditure - - - 152,502,000

and estimated surplus - - £333,000

1908

MR. H. H. ASQUITH.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
Debt Charge—	£	£	£	
Fixed Charge	28,000,000	29,500,000	29,500,000	Interest and management £18,617,000 Repayment of capital 9,383,000 Increase of sinking fund 1,500,000 £29,500,000
Other Charges on Consolidated Fund	1,685,000	1,685,000	1,972,000	
Payments to Local Taxation Accounts	1,160,000	1,160,000*	11,155,000	
Total Charges on Consolidated Fund	30,845,000	32,345,000	42,627,000	
Army	27,760,000	27,760,000	27,115,000	
Navy	31,419,000	31,419,000	31,141,000	
Civil Services	30,107,000	30,307,000	30,180,000	Includes continuance for another year of grant of £200,000 in relief of education rates in necessitous school districts.
Customs and Inland Revenue	3,258,000	3,258,000	3,222,000	
Post Office Services	17,368,000	17,368,000	17,527,000	
Total Supply Services	109,912,000	110,112,000	109,185,000	
Totals	140,757,000	142,457,000*	151,812,000	£690,000 less than estimate.

Estimated Surplus - £333,000.
Realized ,, - £4,726,000.

Surplus due to—

(1) Income-tax, £1,880,000 above estimate. The arrears, £750,000, had all been collected, and the lower tax on the small incomes had been unexpectedly productive.

(2)

Sugar	£307,808	above estimate..
Tea	207,947	,,
Tobacco	239,378	,,
Estate Duty	373,000	,,
Mint	520,000	,,

Civil Services had cost £809,000 and Army £645,000 less than estimated. There had been supplementary estimates of £682,000 for Civil Services and £260,000 for Post Office.

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs	32,600,000	29,200,000	29,200,000	Proposal to reduce sugar duty from 4s. 2d. to 1s. 10d. per cwt. Estimated cost to revenue £3,400,000.
Excise	35,500,000	35,500,000	33,650,000	
Estate, etc., Duties	19,500,000	19,500,000	18,370,000	
Stamps	8,100,000	8,080,000	7,770,000	Marine insurance voyage policies reduced from 3d. to 1d. per cent. Loss £20,000.
Land Tax	700,000	700,000	730,000	
House Duty	1,900,000	1,900,000	1,900,000	
Income-Tax	33,000,000	33,000,000	33,930,000	
Total Tax Revenue	131,300,000	127,880,000	125,550,000	
Post Office	18,250,000	18,250,000	17,770,000	
Telegraphs	3,000,000	3,000,000	3,020,000	
Telephone Service	1,520,000	1,520,000	1,510,000	
Crown Lands	530,000	530,000	530,000	
Suez Canal Shares, etc.	1,170,000	1,170,000	1,171,000	
Miscellaneous	2,000,000	2,000,000	2,027,000	
Total Non-Tax Revenue	26,470,000	26,470,000	26,028,000	
Totals	157,770,000	154,350,000	151,578,000	£2,772,000 * less than estimate.

* After deducting from excise the sum of £1,270,000 (estimated proceeds of local taxation licences transferred to county councils from 1st January, 1909, § 6 of Finance Act, 1908), the revenue fell short by £1,502,000, due to depression of trade. (Chief items: beer £408,668 less than estimated, death duties £1,189,000 less than estimated.) It would have been more if forestalment of dutiable goods, especially spirits, in anticipation of the budget, had not brought in some £550,000.

1909.

MR. H. H. ASQUITH.)

EXPENDITURE.

	Estimate. According to Estimates presented.	Estimate. After proposed Changes.	Result: Exchequer Issues.	
Debt Charge—	£	£	£	
Fixed Charge	28,000,000	18,215,000 9,785,000	28,000,000	
Other Charges on Consolidated Fund	1,685,000	1,685,000	1,669,000	
Payments to Local Taxation Accounts	11,250,000	11,290,000	9,824,000	Proposed payment for cost of collection of transferred licences £40,000.
Total Charges on Consolidated Fund	40,935,000	40,975,000	39,493,000	
Army	27,459,000	27,459,000	26,840,000	
Navy	32,319,000	32,319,000	32,188,000	
Civil Services	30,510,000	31,710,000	32,338,000	Includes provision for old age pensions from 1st January, 1909, £1,200,000.
Customs and Inland Revenue	3,324,000	3,324,000	3,320,000	
Post Office Services	18,322,000	18,322,000	18,113,000	
Total Supply Services	111,934,000	113,134,000	112,799,000	
Totals	152,869,000	154,109,000	152,292,000	£1,817,000 † less than estimate.

Estimated Surplus - £241,000.

Actual Deficit - £714,000.

† After deducting £1,270,000 from estimate for the payment to local taxation accounts as the proceeds of local taxation licences transferred under § 6 of the Finance Act of 1908, the expenditure was £547,000 less than had been anticipated.

(Supplementary estimates had also been presented, £1,479,000 for old age pensions, and £4,000 for customs and inland revenue.)

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On basis of 1908-9 Taxation.	After proposed Changes (April).		
	£	£	£	
Customs - - -	28,100,000	30,740,000	30,348,000	Proposed duty on motor spirit estimated to yield £340,000. Proposed increase of spirit duties estimated to yield £400,000. Proposed increase of tobacco duties estimated to yield £1,900,000.
Excise - - -	32,050,000	36,110,000	31,032,000	Proposed increase of spirit duties to yield £1,200,000. Proposed revision and increase of liquor licences, £2,600,000. Proposed increased motor-car licence duties, £260,000.
Estate, etc., Duties -	18,600,000	21,450,000	21,766,000	Proposed revision of estate duties estimated to yield £2,850,000.
Stamps - - -	7,600,000	8,250,000	8,079,000	Proposed increase of stamp duties to yield £650,000.
Land Tax - - -	700,000	700,000	150,000	
House Duty - -	1,950,000	1,950,000	560,000	
Income-Tax - -	33,900,000	37,400,000	13,295,000	Income-tax: proposed increase of 1s. rate to 1s. 2d. (less new allowances) expected to yield £3,000,000. Proposed super-tax estimated to yield £500,000. (See Table VII. A. p. 486.)
Proposed Land Value Duties - - -	—	500,000	—	
Total Tax Revenue -	122,900,000	137,100,000	105,230,000	
Post Office - -	17,750,000	17,750,000	18,220,000	
Telegraphs - -	3,000,000	3,000,000	3,090,000	
Telephone Service -	1,650,000	1,650,000	1,720,000	
Crown Lands - -	530,000	530,000	480,000	
Suez Canal Shares, etc.	1,166,000	1,166,000	1,269,000	
Miscellaneous - -	1,394,000	1,394,000	1,688,000	
Total Non-Tax Revenue	25,490,000	25,490,000	26,467,000	
Totals - -	148,390,000	162,590,000	131,697,000	

TABLE I.

MR. D. LLOYD GEORGE.)

EXPENDITURE.

	ESTIMATE.		RESULT: Exchequer Issues.	
	According to Estimates presented.	After Proposed Changes (April).		
Debt Charge—	£	£	£	
Fixed Charge - -	28,000,000	25,000,000	21,758,000	The fixed charge was to be again reduced to £25,000,000 (viz. £18,120,000 for interest and management, and £6,880,000 for repayment of capital). Only £3,531,419 was actually so allotted in 1909-10.
Other Consolidated Fund Charges -	1,670,000	1,670,000	1,654,000	
Payments to Local Taxation Accounts	9,483,000	9,483,000 600,000	9,445,000	Payments to local taxation accounts were to be increased by £600,000, to be granted out of the proceeds of the new motor-car duties.
Total Consolidated Fund Charges - -	39,153,000	36,753,000	32,857,000	
Army - - -	27,435,000	27,435,000	27,236,000	
Navy - - -	35,143,000	35,143,000	35,807,000	
Civil Services - -	40,070,000	40,370,000	40,010,000	Civil services include a proposed grant to new development fund, £200,000, and a proposed expenditure for Labour Exchanges of £100,000; public education £17,418,000; old age pensions £8,750,000; other civil services £14,202,000.
Customs and Excise and Inland Revenue	3,373,000	3,423,000	3,342,000	Customs and Inland Revenue vote includes £50,000 for expenses of proposed land valuation.
Post Office Services -	18,978,000	18,978,000	18,693,000	
Total Supply Services -	124,999,000	125,349,000	125,088,000	
Totals - -	164,152,000	162,102,000	157,945,000	

For revised Estimates see over.

Estimated Surplus, £488,000.
Actual Deficit, - £26,248,000.

The proposals in this Budget did not become law until 29th April, 1910, one year after its introduction.

It became necessary to introduce revised estimates in October altering materially the figures shown in April. The effect of the revised estimates is shown in the form of a balance-sheet. (House of Commons, 297, 22nd October, 1909.)

ESTIMATED REVENUE.

Total Estimated Revenue on the basis of the original proposals of the Chancellor of the Exchequer (House of Commons, 121 of 1909) - -			£162,590,000
Add—			
Estate Duties—			
Estimated increase of yield - - - - -		£1,300,000	
Stamps—			
Estimated increase of yield - - -	£300,000		
Less—			
Concessions made in Committee - -	50,000		
		250,000	
Land Value Duties—			
Substitution of Mineral Rights Duty for Duty on Undeveloped Minerals - -	£175,000		
Less—			
Concessions made in Committee (Increment Value Duty, £25,000; Undeveloped Land Duty, £25,000), and for delay in collection, £25,000 - - - - -	75,000		
		100,000	
Post Office Revenue—			
Estimated increase of yield - - - - - -		200,000	
			1,850,000
			£164,440,000
Deduct—			
Excise—			
Spirit Duties: estimated fall in yield - - - -		800,000	
License Duties—			
Concessions made in Committee - - - - -		500,000	
		£1,300,000	
Income Tax—			
Increase of allowance, under Schedule A (in a full year £500,000) - - - - - - - - - -		300,000	
			1,600,000
Revised Estimate of Total Revenue -			£162,840,000

TABLE II.

MR. D. LLOYD GEORGE—*continued*).

ESTIMATED EXPENDITURE.

Total Estimated Expenditure as originally proposed (House of Commons, 121 of 1909)	£162,102,000
Add—	
Grant to Local Authorities of one-half of the proceeds of Land Value Duties	300,000
Expenses of Land Valuation (£250,000, *less* £50,000 originally estimated)	200,000
Supplementary Estimates (House of Commons Paper of 1909) (£467,000, *less* £100,000 provided for in the budget)	367,000
	£162,969,000
Deduct—	
Proposed additional reduction of Fixed Debt Charge from £25,000,000 to £24,500,000	500,000
	£162,469,000
Balance	371,000
	£162,840,000

DETAILS OF ADDITIONAL REVENUE EXPECTED FROM THE FINAL BUDGET PROPOSALS.

The revenue on the basis of existing taxation had been estimated at £148,390,000. The following * was the additional revenue estimated to be produced by the new taxes or additions to old taxes proposed by this budget, after final revision and changes made in Committee.

Customs—		
Spirits, increase of 3s. 9d. a gallon	£400,000	
Motor spirit, 3d. a gallon	340,000	
Tobacco, increase of 8d. a lb.	1,900,000	
		£2,640,000
Excise—		
Spirits, increase of 3s. 9d.	£400,000 †	
Increase of motor-car licences	260,000	
Increase of liquor licence duties	2,100,000	
		2,760,000
Estate Duties—		
Increase estate duty scale	£2,550,000	
Increase settlement estate duty from 1 to 2 per cent.	50,000	
Amendment of law in connexion with powers of disposition	250,000	
Total original estimate	£2,850,000	
Increased later by	1,300,000	
		4,150,000
Stamp duties—		
Original estimated increase	£650,000	
Increased by £300,000, minus £50,000 for concessions in Committee	250,000	
		900,000
Income-tax—		
Increase of 1s. to 1s. 2d., except for earned incomes	£3,600,000	
Super-tax	500,000	
	£4,100,000	
Deduct £10 abatement each child	600,000	
and allowances for repairs as increased in Committee	300,000	
		3,200,000
Land Value Duties—		
Increment duty (20 %)	£25,000	
Undeveloped land duty	325,000	
Reversion duty, 10 % on termination of lease	100,000	
Mineral rights duty, substituted in Committee for duty on undeveloped mineral duty	175,000	
	£625,000	
Deduct £25,000 for delay in collection	25,000	
		600,000
Postal revenue increased by £200,000		200,000
		£14,450,000

* See Financial Statements for 1909-10 (House of Commons papers 121 and 297 of 1909).

† Reduced from £1,200,000, the fall in yield being put at £800,000.

REVENUE.

	ESTIMATE.		RESULT: Exchequer Receipts.	
	On existing basis of Taxation. No changes made.	Adding arrears of 1909-10 as on previous column.		
	£	£	£	
Customs	32,095,000	32,241,000	33,140,000	
Excise	34,270,000	36,910,000	40,020,000	
Estate, etc., Duties	25,650,000	27,030,000	25,452,000	
Stamps	9,600,000	9,600,000	9,784,000	
Land Tax	700,000	1,250,000	1,220,000	
House Duty	1,990,000	3,380,000	3,080,000	
Income-Tax	37,550,000	61,000,000	61,946,000	
Land Value Duties	600,000	1,090,000	520,000	
Total Tax Revenue	142,455,000	172,501,000	175,162,000	
Postal Services	18,800,000	18,800,000	19,220,000	
Telegraph Services	3,100,000	3,100,000	3,175,000	
Telephone Services	1,900,000	1,900,000	1,955,000	
Crown Lands	480,000	480,000	500,000	
Suez Canal Shares and Sundry Loans	1,160,000	1,160,000	1,235,000	
Miscellaneous	1,850,000	1,850,000	2,604,000	
Total Non-Tax Revenue	27,290,000	27,290,000	28,689,000	
Totals	169,745,000	199,791,000	203,851,000	£4,060,000 more than estimate.

Arrears of 1909-10 collected (included in above)—

Customs	£146,000
Excise	2,640,000
Estate, etc., Duties	1,380,000
Land Tax	550,000
House Duty	1,390,000
Income-Tax	23,450,000
Land Value Duties	490,000
	£30,046,000

1911.

MR. LLOYD GEORGE.)

EXPENDITURE.

	ESTIMATE. According to Estimates presented.	ESTIMATE. After proposed changes and including arrears of 1909-10.	RESULT: Exchequer Issues.	
Debt Charges—	£	£	£	
Fixed Charge	24,500,000	24,500,000	24,500,000	£17,954,000=interest and management. £6,546,000=repayment of capital.
Other Charges	54,000	54,000	54,000	War Loan (Redemption) Act 1910.
Development and Road Improvement Funds	1,160,000	1,740,000*	1,363,000	* Includes £580,000 (arrears of 1909-10).
Payments to Local Taxation Accounts, etc.	9,585,000	9,932,000†	9,882,000	
Other Consolidated Fund Services	1,646,000	1,646,000	1,664,000,	
Total Consolidated Fund Services	36,945,000	37,872,000	37,463,000	
Army	27,760,000	27,760,000	27,449,000	
Navy	40,604,000	40,604,000	40,386,000	
Civil Services	42,686,000‡	43,136,000§	43,098,000	‡ Of this sum: public education=£17,975,000; old age pensions=£9,220,000; other civil services=£15,491,000.
Customs and Excise and Inland Revenue	4,034,000	4,034,000	3,919,000	
Post Office Services	19,828,000	19,828,000	19,681,000	§ £450,000 net added for old age pensions, for which a supplementary estimate of £895,000 was also presented. There was therefore a saving of £933,000 on the total estimate for civil services.
Total Supply Services	134,912,000	135,362,000	134,533,000	
Total	171,857,000	173,234,000	171,996,000	
Deficit, 1909-10	—	26,248,000	26,248,000	
Total Estimated Expenditure	—	199,482,000	198,244,000	£1,238,000 less than estimate.

† *Includes* £328,000, the difference between the proposed fixed grant and actual proceeds of the local taxation (customs and excise) duties (arrears from 1909-10), and also £319,000, a similar grant for 1910-11.

Excludes the proposed land value duties grant estimated at £300,000, and included in the estimates first presented. This grant was suspended. Net increase on estimate under this head therefore £347,000. The land value duties grant for 1909-10 of £245,000 (arrears expenditure from 1909-10) was also suspended.

Estimated Surplus	£309,000
Realised Net Surplus (on the years 1909-10 and 1910-11)	£5,607,000

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	33,732,000	33,687,000	33,649,000	Alteration in cocoa duty to cost £45,000.
Excise - - -	35,868,000	35,818,000	38,380,000	Modification of liquor licence duty estimated to cost £50,000.
Estate, etc., Duties -	25,150,000	25,150,000	25,392,000	
Stamps - - -	9,600,000	9,600,000	9,454,000	
Land Tax - - -	700,000	700,000	750,000	
House Duty - -	2,000,000	2,000,000	2,130,000	
Income-Tax - -	44,300,000	44,300,000	44,804,000	This estimate includes a sum of £3,000,000 for super-tax.
Land Value Duties -	700,000	700,000	481,000	
Total Tax Revenue -	152,050,000	151,955,000	155,040,000	
Postal Services - -	19,850,000	19,850,000	19,650,000	
Telegraph Services -	3,130,000	3,130,000	3,105,000	
Telephone Services -	2,760,000	2,760,000	2,945,000	
Crown Lands - -	500,000	500,000	530,000	
Suez Canal Shares and Sundry Loans -	1,226,000	1,226,000	1,281,000	
Miscellaneous - -	2,200,000	2,200,000	2,539,000	
Total Non-Tax Revenue	29,666,000	29,666,000	30,050,000	
Totals - -	181,716,000	181,621,000	185,090,000	£3,469,000 more than estimate.

To shew the entire expenditure for which the State was responsible in 1911-12, it is necessary to add expenditure chargeable to capital account as follows—

I.	Expenditure chargeable against Revenue - - -		£178,545,000
II.	,, ,, ,, Capital—		
	Telegraph Acts, 1892-1907 - -	£1,150,000	
	Telephone Transfer Acts, 1911 -	3,000,000	
	Military Works Acts, 1897-1903 -	250,000	
	Land Registration (New Buildings) Act, 1900 - - - -	7,000	
	Public Offices Site (Dublin) Act, 1903	45,000	
			4,452,000
			£182,997,000

1912.

MR. LLOYD GEORGE.)

EXPENDITURE.

	Estimate.		Result: Exchequer Issues.	
	According to Estimates presented.	After proposed Changes.		
National Debt—	£	£	£	
Fixed Charge - -	24,500,000	24,500,000	24,500,000	*Estimate:* Interest and management, £17,645,000; repayment of capital, £6,855,000.
Development and Road Improvement Funds - - -	1,280,000	1,280,000	1,710,000	*Actual:* Interest and management, £17,455,000; repayment of capital, £7,045,000.
Payments to Local Taxation Accounts	9,549,000	9,549,000	9,636,000	
Other Consolidated Fund Services -	1,707,000	1,707,000	1,693,000	
Total Consolidated Fund Services - -	37,036,000	37,036,000	37,539,000	
Army - - -	27,690,000	27,690,000	27,649,000	
Navy - - -	44,393,000	44,393,000	42,858,000	
Civil Services - -	46,788,000	47,088,000	46,001,000	Including estimate for payment of Members, £250,000, and national insurance, £50,000.
Customs and Excise, and Inland Revenue	3,995,000	3,995,000	3,951,000	Estimate for education, £18,365,000; old age pensions, £12,415,000; insurance and labour exchanges, £184,000; civil services, £16,124,000.
Post Office Services -	21,082,000	21,082,000	20,547,000	
Total Supply Services -	143,948,000	144,248,000	141,006,000	
Totals - -	180,984,000	181,284,000	178,545,000	£2,739,000 less than original estimate.

Estimated Surplus - £337,000.

Realised ,, - £6,545,000.

There were supplementary estimates of £555,000, but the *actual surplus* was as shewn by the above figures, and was *the largest on record.* (Under-spending by the Admiralty, and 2½ millions excess in excise—rise in consumption of beer and spirits.)

REVENUE.

	Estimate.		Result: Exchequer Receipts.	
	On existing basis of Taxation.	After proposed Changes.		
	£	£	£	
Customs - - -	33,900,000	33,900,000	33,485,000	
Excise - - -	37,700,000	37,700,000	38,000,000	
Estate, etc., Duties -	25,450,000	25,450,000	25,248,000	
Stamps - - -	9,400,000	9,400,000	10,059,000	
Land Tax - - -	700,000	700,000	700,000	
House Duty - -	2,000,000	2,000,000	2,000,000	
Income-Tax and Super Tax - - -	44,100,000	44,100,000	44,806,000	
Land Value Duties -	545,000	545,000	455,000	
Total Tax Revenue -	153,795,000	153,795,000	154,753,000	
Postal Service - -	20,275,000	20,275,000	20,300,000	
Telegraph Service -	3,000,000	3,000,000	3,100,000	
Telephone Service -	5,900,000	5,900,000	5,775,000	
Crown Lands - -	530,000	530,000	530,000	
Suez Canal Shares and Sundry Loans -	1,289,000	1,289,000	1,419,000	
Miscellaneous - -	2,400,000	2,400,000	2,925,000	
Total Non-Tax Revenue	33,394,000	33,394,000	34,049,000	
Total Revenue -	187,189,000	187,189,000	188,802,000	£1,613,000 more than estimate, *i.e.* he budgeted for an increase on 1911-12 of £2,099,000, and obtained £3,712,000.

† Expenditure chargeable against capital £8,488,000, including £7,000,000 in part payment of the purchase money of the National Telephone Company's undertaking, on account of which £3,000,000 had been paid in 1911-12.

1913.

MR. D. LLOYD GEORGE.)

EXPENDITURE.

	ESTIMATE. According to Estimates presented.*	RESULT: Exchequer Issues.	
National Debt—	£	£	*There were no changes proposed in the estimated expenditure.
Fixed Charge	24,500,000	24,500,000	
Road Improvement Fund	1,225,000	1,172,000	
Local Taxation Accounts	9,584,000	9,653,000	
Other Consolidated Fund Charges	1,709,000	1,693,000	
Total Consolidated Fund Services	37,018,000	37,018,000	
Army	27,860,000	28,071,000	
Navy	44,085,000	44,365,000	
Civil Services—			
Old Age Pensions	12,200,000	12,211,000	
Insurances and Labour Exchanges	2,845,000	4,466,000	
Other Civil Services, including Education	34,814,000	35,267,000	
Customs, Excise and Inland Revenue	4,254,000	4,200,000	
Post Office Services	23,809,000	23,024,000	
Total Supply Services	149,867,000	151,604,000	
Total Expenditure	186,885,000	188,622,000†	=£1,737,000 more than original estimate, which, however, had been raised by supplementary estimates for Navy, Insurance, etc., of £4,671,000 to £191,556,000. Underspending of the Admiralty again a feature.

Estimated Surplus - £304,000.
Realized ,, - £180,000

RESULT.—Estimates on both sides again wide of the mark. Income-tax £706,000 and Stamps £600,000 account for the chief part of the increased revenue.

REVENUE.

	*Estimate on basis of existing Taxation.	RESULT: Exchequer Receipts.	
	£	£	
Customs	35,200,000		*No change in taxation proposed.
Excise	38,850,000		
Estate, etc., Duties	26,750,000		
Stamps	9,800,000		
Land Tax	700,000		
House Duty	2,000,000		
Income-Tax	45,950,000		
Land Value Duties	750,000		
Total Tax Revenue	160,000,000		
Postal Services	21,125,000		
Telegraph Service	3,150,000		
Telephone Service	6,350,000		
Crown Lands	530,000		
Suez Canal Shares and Sundry Loans	1,370,000		
Miscellaneous	2,300,000		
Total Non-Tax Revenue	34,825,000		
Sum to be taken from Exchequer Balances for shipbuilding arrears of 1911-12 and 1912-13	1,000,000		
Totals	195,825,000		

1914.

MR. D. LLOYD GEORGE.)

EXPENDITURE.

	Estimate.	RESULT: Exchequer Issues.	
National Debt—	£	£	
Fixed Charge - -	24,500,000		
Road Improvement Fund -	1,340,000		
Local Taxation Accounts -	9,665,000		
Other Consolidated Fund Services - - - -	1,704,000		
Total Consolidated Fund Services - - - -	37,209,000		
Army - - - - -	28,235,000		
Navy - - - - -	46,309,000		
Civil Services—			
Old Age Pensions - -	12,600,000		
Labour Exchanges, Insurance, etc. - - -	7,499,000		
Other Civil Services, including Education -	34,889,000		
Customs and Excise, and Inland Revenue - -	4,533,000		
Post Office Services - -	24,366,000		
Total Supply Services - -	158,431,000		
Total Expenditure - -	195,640,000		

Estimated Surplus - £185,000.

PART III.

NOTES ON THE SUCCEEDING TABLES.

NOTES ON THE SUCCEEDING TABLES.

(1) General Remarks on Classification.

Without going so far as to assert with an eminent financial critic of the last generation that "the information in the budget, finance accounts, statistical abstract and special parliamentary returns about Imperial taxation is vitiated by cardinal errors of arrangement and definition, which obscure the subject and mislead public opinion," it may be admitted that the method of classification adopted in them is little calculated to assist the consideration of some of the questions which, as we have seen, have been most discussed in recent Parliaments. It neither indicates which of the taxes may be considered "direct" and which "indirect," which are taxes on capital and revenue and which are taxes on commodities and consumption, nor draws any distinction between items of non-tax revenue so different in character as post office receipts and Suez Canal dividends. There is, indeed, one classification which, though it does not actually appear as an official publication, is constantly referred to in budget speeches and discussions, namely, that which gives the proportion between the amount of direct and indirect taxation (see Table XIV.). Such a statement kept up through a series of years has a certain utility as roughly indicating the tendency

which has recently prevailed to relieve the pressure of the taxation falling on the population as a whole by increasing that which primarily affects a more limited class. But the allocation of some of the items in these lists is open to question, and the classification clearly dates from a time when it was thought sufficient to maintain a rough balance between the two traditional branches of the tax system without inquiring too closely into their incidence upon different classes of the population. Something more is certainly required if sufficient light is to be thrown on the changes which have occurred in the proportion of the revenue drawn from sources of different kinds.

It is, however, not within the province of these official publications to put forward, even if it were possible to do so, classifications dependent upon some special point of view; and a more plausible criticism of the information published is that it is far from being conclusive as to the true amount of the burden of Imperial expenditure. For twenty years the public accounts were confused by the exclusion, from both the revenue and expenditure sides, of the large amounts assigned or intercepted for the purposes of local taxation, certain smaller contributions of the same character remaining charged on the consolidated fund. I have not, for obvious reasons, restored these in the figures given of the Tables illustrative of the budget statements in which, if they were alluded to at all, they were treated separately; but a column shewing the amount paid to the local taxation accounts has been included in each of Tables I. and II., Part III., and full adjustment has been made in the detailed Tables of the various sources of taxation affected (such as

Tables III., VI., XII., etc.); and the local taxation tangle was of course rectified, from the accounts point of view, in the budget of 1907, while from 1908 establishment licences were finally severed from Imperial finance and handed over to local authorities.

Another source of difficulty from a similar point of view is that raised by the return of public income and expenditure known as Sir Henry Fowler's return (see, *e.g.* House of Commons, 309, 1899), the object of which was to shew "the true cost of the Imperial Government so far as it falls on the general taxpayer or the community at large." As this object was effected by substituting the net Post Office revenue for the gross revenue and expenditure, and setting off the small items of "Miscellaneous Revenue" against expenditure it is important as raising the interesting question of the proper treatment of the appropriations-in-aid. "The return," in the words of the memorandum prefixed to it, "is an extension of the system now adopted for many years of appropriating extra receipts in aid of expenditure, the result of which is to bring out smaller totals on both sides of the account."

In 1881, the Public Accounts Committee recommended and the Government of the day adopted the system of appropriating all cash receipts in aid of the votes, thus diminishing the sums actually voted for the services concerned. This was applied first to the Army and Navy estimates, and gradually extended to the various civil votes, the system being carefully adapted to preserve in its integrity parliamentary control over finance (Public Accounts and Charges Act, 1891). The change was made to remedy the anomalies which had previously existed in the treat-

ment of extra receipts, and it was defended on the ground that "so far as such receipts were not appropriated in aid of votes, both the revenue and the expenditure of the State were habitually overstated, and consequently both the taxation and the cost of Government appeared to be larger than they really were; as, for instance, resulted from the glaring case of the large payments made by the Indian Government to the War Office which acted merely as their agents." [1]

Mr. T. G. Bowles has constantly objected to this system by which he stated in 1902 that the sum thus withdrawn, as he contended, from the control of the House of Commons amounted in 1900-1 to nearly ten millions a year, giving a "false notion to all except an expert of the true national revenue and expenditure." Whether any of these extra receipts constitute part of the public burden which ought to appear in a national balance sheet is a matter of opinion. The present practice has at all events not been applied to the post office, the gross expenditure and revenue of which have continued to appear in all public accounts except in the case of the now discontinued Fowler return; and there is something to be said for the view that gross post office receipts constitute a public burden though they certainly cannot be described as "taxation." They are receipts for actual service rendered, for which the public pays to the State the cost price *plus* a certain profit, just as it would pay for the satisfaction of other needs to private traders. The

[1] Memorandum by Sir E. W. Hamilton, Report National Expenditure, House of Commons, 387, 1902, Appendix No. 12, pp. 223-4. Memorandum by Mr. T. G. Bowles, M.P., Appendix No. 12, pp. 212-3.

State expends the proceeds, except for the margin which is regarded as profit (the net revenue) and which many economists class as taxation,[1] on postal services, *i.e.* wages, rents, material, transport, and so on ; and the balance of argument seems on the whole to be in favour of the existing method of treating the postal revenue, even if it is not on all fours with the treatment of other " extra receipts." It has accordingly been followed in most of the Tables in this volume, though the net revenue will also be found stated in Table XXIII., and is used for estimates of incidence. As regards the appropriations-in-aid generally, it is sufficient to have noted the existence of a comparatively large sum which some critics might be inclined to include in a total of public burdens, but which does not appear in the usual tables. During almost the whole period under review the practice has been practically uniform so that the figures do not require readjustment for purposes of comparison, though the totals of Mr. Goschen's earlier budgets may be slightly overstated compared with subsequent

[1] The question of post office revenue was fully discussed by the various economic experts to whom the local taxation commissioners addressed a circular of questions. See Memorandum on Classification and Incidence of Imperial and Local Taxes (C. 9528 of 1899). Every variety of view was expressed, from that of Sir Robert Giffen, who held that the gross revenue might be looked on as taxation, to that held by Mr. Cannan, Mr. Blunden, and apparently Mr. Seligman, that none of it could be so classed. The balance of opinion, however (Sir E. Hamilton, Mr. Courtney, Professor Bastable Marshall, Mr. Sidgwick, and Mr. Sanger), seemed to be in favour of treating the net revenue as taxation. Mr. Sidgwick, however, put forward the view (perhaps the soundest in theory) that only the amount which the public pay for these services beyond what they would pay for them if the Government gave up its monopoly should strictly be looked on as taxation.

budgets owing to the inclusion of certain extra receipts before the change of practice had taken full effect.

If, however, the questions as to the true amount of the public burdens may be thus disposed of, the question of the classification of the revenue remains. It is very much easier to criticize the existing method than to suggest a substitute. On the whole, a classification somewhat on the lines suggested in a communication to the *Times* of May 11th, 1903 (probably by the late Sir Robert Giffen), seems to have advantages for the present purpose as corresponding with certain real differences in the character and incidence of the various fiscal burdens. The revenue might thus be divided into :

(1) Direct taxes.
(2) Taxes on consumption :
 (*a*) on alcohol and tobacco ;
 (*b*) on other articles (tea, sugar, etc.).
(3) Taxes on transactions, revenue from State property, etc. :
 (*a*) Stamps, post office (gross or net) revenue ;
 (*b*) Crown lands, Suez Canal shares, and miscellaneous.

The first two headings undoubtedly correspond with those of direct and indirect taxes in the sense in which those terms have been generally understood in English text-books. Cliffe Leslie, for instance, founding himself on J. S. Mill's definition, observes that " we may safely continue to employ the term to denote the radical distinction intended, namely, between taxes on the one hand levied either directly from the contributors or from funds on the way to them, and taxes,

on the other, on producers or dealers in the intention that they shall recover them in the price finally paid by consumers." And Professor Bastable (*Public Finance*, page 348) writes: "These are . . . the special forms of the two kinds of taxation that are usually selected as types in discussions about them, so that it is not difficult to understand how the comparisons between direct or indirect taxation have become for the most part an inquiry into the relative merits of taxes on income and property as against taxes on commodities." The two groups described may therefore be taken to cover the greater part of the taxation which has to be taken into account if it is desired to consider its incidence, or the changes of its incidence, upon the two broadly distinguished classes of the income-tax-payers on the one hand and the bulk of the population not subject to income-tax on the other—those with income above and below £160 per annum respectively; and in this connection the sub-division of the "taxes on consumption" (heading 2) is of some importance. The alcohol and tobacco duties partake of a sumptuary character, and the heavy duties imposed on these articles are imposed partly for non-fiscal reasons. Their incidence, too, is different. They are paid by certain sections of all classes who voluntarily subject themselves to the charge. But inasmuch as these articles of consumption are looked upon as necessaries by the mass of the adult male population, they may, if this distinction is borne in mind, be included with the remaining taxes on consumption.

The allocation of several items in the different headings, however, is so doubtful that this classi-

fication, like others, is of limited utility and cannot be pressed too far. If income-tax and death duties fall without question under the head of direct taxation the inhabited house duty may be classed, according to the economic authority followed, either as an alternative form of income-tax (direct) or as a tax on a commodity (consumption); and the land tax may, with much justification, be held to have passed altogether out of the category of taxation as an hereditary burden and be classed with Crown lands under head 3 (*b*). If establishment licences, when forming part of Imperial taxation, should be assigned to direct taxation rather than to transactions, under which head should the liquor licences fall? They might with almost equal plausibility fall under any of the three heads. But as taxes on profits of a monopoly character they would not be shifted to the consumer to an appreciable extent, and they may perhaps remain under the first head (direct). The railway passenger duty is classed by the Treasury with direct taxation. But its incidence is probably not upon the traveller by train so much as on the shareholder in railway companies by decreasing the dividend to which he is entitled. Again, what of stamps or post office net revenue? Should they, or at any rate stamps, be assigned to direct taxation? If the principle of classification is based on the character of the burden they certainly belong to taxes on transactions. If it is primarily directed to the question of incidence upon different classes, there is something to be said for including these, together with house duty, passenger duty, and licences in direct taxation; for the bulk of them, or an easily

estimated portion of them, would be paid by the income-tax-paying class.

In view of such difficulties as these it is deemed best to avoid any formal classification in most of the following tables, and to give the necessary details (increases, decreases, percentages, etc.) as to the main items of taxation in such a form that readers may be able to utilize them in accordance with their own needs or theories.

There is no more complex subject in the whole range of economics than that of the incidence and shifting of taxation, and its indirect effects on prices and wages. I have, however, not thought it necessary, in dealing with the allocation of taxation between classes, to discuss theories which are fully set out in such authoritative works as Professor Seligman's *Incidence of Taxation*, Bastable's *Public Finance*, and the valuable memoranda by various economic experts published by the Royal Commission on Local Taxation (C. 9528, 1899). In any assumptions I have made I have adopted only conclusions which seem warranted by a fair consensus of economic opinion, and upon which fiscal legislation in this country has generally proceeded. The practical difficulties arising from insufficient data are very great, and economic theory includes certain qualifications suggested by fiscal experience. Among these would be the axioms that old taxes are less impatiently borne than new ones; that the greatest obstacle to an equitable distribution of the burden is excessive taxation; and that in contradistinction to an optimistic theory of "general diffusion" there is the view expressed by Lord Morley. "Be sure," he said many years ago, "that the burden

of taxes, however spread, however disguised, at last comes heaviest on the shoulders of the industrial community."

(2) Description of Tables.

It is not claimed that the tables which follow have any interest of novelty, but after dealing with the fiscal history piecemeal in the separate yearly budgets it has appeared necessary to gather the figures together in order to facilitate their examination, and to enable readers of the text to refer to the series of figures under one or other of the heads for the whole period. Most of the principal heads both of revenue and expenditure are further analysed in a way which it is hoped will assist investigation of the changes which have taken place. Tables I. and II. are summaries of the separate budget tables both for the revenue and expenditure, to which tables, however, are added columns shewing the amounts paid into the local taxation accounts out of Imperial revenue. This system of assigned revenue was, as has been pointed out, commenced under Mr. Goschen, but until 1908 the amounts so paid did not appear with the ordinary statement of revenue. It is important also to note that the figures of gross revenue and expenditure in these two tables are the figures on which the percentages appearing in the other tables are based.

NOTE.

It may be useful to explain that there are two sets of figures, viz.: I. Exchequer Receipts and Issues, and II. Net Receipts and Audited Expenditure, which are unavoidably used in the following Tables in Parts II. and III.

I. (*a*) *Exchequer Receipts* consist of the cash paid into the

Exchequer Account between the 1st April and the 31st March by the revenue departments out of the cash received by them from their collectors.

(*b*) *Exchequer Issues* consist of cash issued from the Exchequer Account between the 1st April and the 31st March, and placed at the disposal of the various public departments.

II. (*a*) *Net Receipts* (that is, the gross receipts less refunds or drawbacks payable in respect of duties which have been collected) are the exact yield of each tax, and of each branch of the Postal Revenue in the period from the 1st April to the 31st March. These differ from the *Exchequer Receipts*, because (1) these sums are paid into the Exchequer before the exact information under each head is forthcoming, (2) a balance of cash remains in the hands of collectors for various payments, and (3) some cash is always in course of actual transit. The relation between the two sets of figures may be stated in a formula, thus :

$$\text{Exchequer Receipts} = \text{Net Receipts} + \text{Balance from previous year, } \textit{minus} \left(\begin{array}{l} \text{the sum of (1) Cash in Transit.} \\ \qquad\qquad (2) \text{ Amounts advanced but not repaid.} \\ \qquad\qquad (3) \text{ Current balance.} \end{array} \right)$$

II. (*b*) *Audited Expenditure* is the expenditure actually incurred or brought to charge by the departments in the financial year. It is not the same as the *Exchequer Issues*, because (1) the detailed information of actual payments is not immediately forthcoming, (2) there remain cash balances, both at the beginning and at the end of the year, and (3) there are always outstanding orders. In the relation between the figures of *Audited Expenditure* and *Exchequer Issues*, it is important to note the Treasury practice of regulating the amount issued in one year according to the balance remaining unspent of the issues of the previous year. In particular years the differences between the Exchequer Issues and the actual payments are large in greater or less degree, but in the aggregate the correspondence is remarkably close.

In the Tables which follow in Parts II. and III. the figures actually used are generally specified. All the budget figures are given in Exchequer Receipts and Issues. The detailed figures of taxes do not, of course, exist in the form of Exchequer receipts, and they are therefore given in the figures of net receipts. For the detailed expenditure on the Army and Navy the figures of the audited expenditure are used, and in addition the amounts of the total Exchequer Issues to the departments are given. Civil expenditure is stated in terms of *Exchequer Issues*.

(a) *Revenue Tables.*

Tables analysing (*a*) revenue and (*b*) expenditure follow. The first group deals with indirect taxes or taxes on consumption, and the revenue from customs and excise has been analysed in some detail, but analysed as a whole. The receipts from alcoholic drinks, liquor licences and tobacco (except home-grown tobacco, the excise receipt being a negligible sum compared with the customs figure) are gathered in Table III., and the changes of duty are indicated. A second table (Table V.) gives the receipts from tea, sugar, etc., and may be generally described as the receipts from food taxes, even if a very inconsiderable sum from chloroform, perfume and soap, articles not of daily diet, be included under "other customs." This table contains also consumption figures per head of population, and states the changes of duty in regard to tea and sugar. Table VI. gives the complete statement of the customs and excise figures, bringing together the totals of alcoholic drink and tobacco, the totals of the food taxes and the remaining duties, shewing the amounts of these duties which are due to the local authorities as assigned revenue, and the payments into the Exchequer, as appearing in the separate budget tables. The detailed figures are, of course, the "net receipts" figures. As the statistical abstract does not distinguish between the "liquor" and "other licences" earlier than 1895-6, the figures given in the tables for the years 1887-8 to 1894-5 inclusive have been supplied by the Board of Customs and Excise, and are compiled from the finance accounts and Inland Revenue Reports. Neither source alone gives these figures, and, indeed, the division between

"liquor" and "other" is in some instances approximate, though in most cases the division is probably correct within £10 or £20. A further table (Table IV.) shewing particulars with regard to the consumption and production of alcoholic drinks and tobacco completes the analysis of the customs and excise revenue. It will be seen later that during the period under review the number of potential drinkers and smokers (*i.e.* the population over fifteen years of age) contained in the divisor taken for the per head figures has *proportionally* increased. The increases per head of the population over fifteen years would, therefore, be a little less than appears from the figures and the decreases a little greater.

It may perhaps be added that round figures are not employed, the main reason being that the figures inserted may be easily identified with the official figures of receipts, etc.

Table VII. gives the total income deducible from the income-tax statistics of the income-tax-paying class. It is arrived at by adding to the sum on which the tax was paid in each year the amount abated, the amount allowed for life insurance premiums, and (for the last two years) the amount of relief for children. The sums under each of these heads for the last year given (1911-12) were £720,640,587, £128,449,392, £11,182,213 and £5,481,611 respectively, making up a total of £866,453,803. The totals include a certain amount of non-personal income, income from the investments of mutual fire and life insurance companies with their reserve funds, reserve funds of companies put aside to equalize dividends, income of Chancery and other trust funds, of clubs, institu-

tions, co-operative societies. All this would be income which is never distributed to individuals, and the total amount of it was put by Sir Henry Primrose in his evidence before the Select Committee of 1906 at about £50 millions. On the other hand a certain sum ought to be allowed for evasion, the amount of which it is impossible to guess at. Some years ago it was estimated at about £30 millions. This table also gives the changes in the rate of the tax and the produce per penny.

Some special tables are also given which are necessary for the study of the estate duty statistics. Table VIII. gives the net capital value of the estates passing at death in each year since 1894, the number of estates or persons and the average value of the estates. Table IX. gives this information in seven-year periods as being more reliable in the case of a tax so variable in details as this. Table X. classifies the numbers and aggregate amounts of estates according to their value with percentages (see also remarks on p. 410), and Table XI. gives the rates of the duty over the period dealt with.

(b) *Expenditure Tables.*

The main heads of expenditure have been analysed in much the same way as in the case of revenue. The National Debt figures are given, and shew both the amount of money devoted each year in repayment of principal and interest (separately distinguished), and also the nominal amount of the debt under the various heads. (The tables are compiled mainly from the return to the House of Commons, No. 82 of 1913.) Reference should be made here to the loans guaranteed

by the British Government, the chief items and the figures of the outstanding amounts, 31st March, 1913, being: Transvaal Guaranteed Stock (£36 millions), Local Loans 3 per cent. (£73 millions), and the various forms of Irish Land Stock (£84 millions). Particulars of the liability in respect of these loans, and also of contingent or nominal liabilities, will be found in the finance accounts.

A statement of local indebtedness is also included, and attention is directed to the notes explaining the figures. It is important to remember that during the period under review many authorities have been added to the list of those whose debts were totalled in 1887-8, and also that the nature of the debt is, in many instances, such as in private business practice would be described as "capital." The figures are taken from the statistical abstract, except for the earlier years, and for these the Scottish Office and the Irish Local Government Board have supplied such figures as are available.

The tables in respect of naval and military expenditure have been drawn up, with the kind assistance of the Admiralty and War Office Authorities, on the model of the Admiralty Returns to the House of Commons of naval expenditure, 310 of 1906 and 300 of 1912. They shew *inter alia* the amount of money spent from votes and from loans; thus the expenditure excluding the annuity charge for the loan, the annuity charge, and the expenditure out of the loan, are distinguishable. It is thus possible to see the extra expense caused by the loan, and what the expenditure for the year in question would have been, assuming all expenditure to have been met out of current

revenue, a necessary basis for any attempt at comparison of yearly expenditure. In order to connect the appropriation account figures with those of the budget tables (Exchequer Issues) a column giving Exchequer issues is included. The other big item of national expenditure is that of the civil service. Two tables are presented. One table (No. XXI.) gives the Exchequer Issues as classified in the votes. (*N.B.*— Class VIII. vote is included under Class VII. in order to save space; Class VIII. being a vote of very recent creation.) The other table (No. XXII.,) has been constructed to shew more clearly under which heads the increases have occurred, and also attempts a more complete statement of civil expenditure. The civil service Exchequer issues given in the previous table have accordingly been divided into (*a*) what may be described as the ordinary or routine expenses of civil government, and (*b*) the cost of the special services of education (the sum of the expenses of the departments dealing with education in each of the three kingdoms), old age pensions, labour exchanges unemployment and health insurance (but not the development fund, as to which see notes on p. 324 and p. 468). These special services are headed "social services," and have been separated from the ordinary civil service expenditure for reasons the significance of which may be seen by reference to pages 463 and 467 below. The table includes, under ordinary or routine expense of government (the first four columns), charges on the consolidated fund (Column 1), such as civil list and various salaries and pensions (judges and others). Columns 5 and 6 deal with "social services," and the remaining columns shew the ex-

penditure on the post office, customs and excise, and inland revenue. The gross expenditure for the post office services was classed by Mr. Buxton in his *Finance and Politics* as "business outlay," or it might be classed, as is generally the case with the customs and excise and inland revenue head, under "collection of revenue." Both groups, however, are concerned with the ordinary cost of carrying on Civil Government, and might, if a grand total for this head is desired, be added to the total of the first four columns.

Table XXIV. analyses the payments to the local taxation accounts, and includes, in addition to the sums indicated in column 10 of the expenditure summary table (No. II.), the payments out of the consolidated fund. It will, of course, be borne in mind that this table is not a complete statement of grants to local authorities, others being the large education grants, and the Government contribution to rates (this latter about £750,000 in 1912-13). It may also be mentioned that the payments to local taxation accounts are now, pending a reconstitution of the financial relations between central and local finance, mainly of fixed sums. There has been little expansion since 1899-1900; the drop in 1908-9 is due to the transference of certain licences wholly to the local authorities, and does not represent any real loss of income.

(3) Further Statistical Data.

It is impossible to get far in drawing conclusions from the figures given in the tables described in the preceding paragraphs without having at hand some

figures and estimates of population, and of national wealth and income. The natural expansion of the revenue has played a considerable part in the growth which these figures shew, and must in the long run be the mainstay of the Treasury in meeting increased demands. For the growth of population, about one per cent. per annum has hitherto been a safe estimate; and the growth of income, to judge from the growth of the income-tax assessments, has been an even more important factor in the calculation, being something over two per cent. per annum.

(a) *Population.*

The figures for each year of the series on which the calculations of taxation and debt per head have been based are those of the population of the United Kingdom, estimated to the middle of each *calendar* year. For the comparisons at different periods with the growth of items of revenue or expenditure, the following figures, estimated to the middle of the *financial* year, have been used:

1887, Sept. 30th,	36,670,000	Increase 4·24 per cent.	
1892, „	38,223,000		
		„ 5·91 „	„
1898, „	40,479,000		
		„ 6·47 „	„
1905, „	43,099,000		
		„ 6·12 „	„
1912, „	45,736,000		

Increase between 1887-8 and 1912-13 = 24·72 per cent.

The now rapidly declining birth-rate is a somewhat disquieting feature for finance ministers of the future, who will also watch the emigration figures with increasing anxiety. At present this country is at an advantage as regards the proportion of the population

at the most economically efficient ages of life, survivors of the more numerous child population of twenty or thirty years ago. The loss of this advantage, which is already beginning and which is to be expected in future decades, will certainly not be without its effect on the productive, and therefore taxable, capacity of the nation as time goes on. The following figures are of interest in this connection, and may be noted as affecting in some degree the calculations of consumption per head of dutiable articles, especially tobacco and drink.

Population under and over fifteen years of age:

	1891	1901.	1911.
Total - -	37,732,922	41,458,721	45,221,615
Under fifteen	13,134,107	13,394,043	13,888,143
Over fifteen -	24,598,815	28,064,678	31,333,472

For each million at all ages there were in

1881 - -	135,551	children	under five.
1891 - -	122,523	,,	,,
1901 - -	114,262	,,	,,
1911 - -	106,857	,,	,,

(*Census of England and Wales*, 1911, vol. vii.; Ages and Condition as to Marriage, Cd. 6610, 1913.)

The number of families (in the census use of the word) was as follows:

	1891.	1901.	1911.
Families -	7,939,203	8,914,324	9,956,185
Persons to families -	4·75	4·65	4·54

(b) *National Income.*

Before discussing the question of the incidence as between the two great divisions of tax-payers, the income-tax and non-income-tax-paying classes re-

spectively, it may be thought necessary to ask what is the true net taxable income in each case, *i.e.* the income after deducting the outgoings that belong to its production, including the maintenance of the human machine. In the case of a man with £700 a year, an appreciable margin remains, after all the expenditure necessary to keep himself and his family in a reasonable condition of health and comfort, and to provide for the future by saving or insurance, which can be diverted to the exchequer without impairing efficiency. In the case of the manual labour class that margin is necessarily very much smaller, and the danger that a heavy burden of taxation will seriously lower the standard of comfort much greater. It is unnecessary to point out that no computation of national income which made deductions on this basis is possible. That considerations of this kind must be taken into account is recognized, however roughly and inadequately, in our system of taxation by the principle that direct taxation should fall on all incomes above a certain limit, and additional taxation (by graduated rates) upon the larger properties and incomes so far as this can be done without hampering the productive industries upon which all classes depend ; by the exemption, as far as possible, of necessaries from taxation ; and by the provision from rates and taxes, to which the working classes indeed contribute, but from which they exclusively benefit, of education, poor law relief, and other advantages. But in the absence of any measure of what are necessaries for men and families of different classes, an estimate of taxable income depending on the exemption of any portion of the income from which the support of the worker is

derived appears to be impracticable ; and it is necessary to fall back on Professor Bastable's dictum that the " fairest single test of taxable capacity is to be found in a comparison of total income rather than in any refined and doubtful calculation as to what is left after necessary expenses have been deducted " (Evidence before Financial Relations Commission). In general terms what is required is the sum of the incomes out of which individuals of all classes have to provide for their personal needs and outlays, including taxation, and the balance of which they can save.

The following estimates cover the period of the present survey. It is perhaps unnecessary to describe at any length the principles on which these estimates have been constructed, as they have been fully explained in more than one published treatise on the subject. It will be enough to say that the only way in which it has been found possible to get at the required sum total of individual incomes has been to estimate and add together the total income of two or three great classes of the population, *e.g.* :

1. The income-tax-payers (over £160 per annum).
2. The manual labour classes.
3. The intermediate class of those who are not liable to income-tax, but are outside the manual labour classes.

For (1) the income-tax assessment gives solid ground.

For (2) the estimates, such as they are, are based on the number of workers employed in manual labour occupations combined with the rate of wages prevailing in the chief industries.

For (3) nothing but a rule of thumb calculation has

ever, as far as I know, been employed, until Mr. A. Bowley undertook a careful study of the question in conjunction with a committee of the British Association in 1910. The committee put the number of this class at 4,000,000 to 4,100,000 persons, and their total income as "a probable estimate" at £335,000,000, which is a good deal higher than any previous estimate, but which may well be found to be still below the mark.

1883. Sir Robert Giffen, basing himself on the previous estimates of Messrs. Dudley Baxter and Leone Levi, gave the following figures. (See his *Essays in Finance*, second series, 2nd edition, 1887, p. 461.)

Income-tax class - -	£602 millions
Intermediate - - -	118 ,,
Manual labour - -	550 ,,
	£1,270 ,,

1895. Before the Financial Relations Commission (see Evidence, vol. ii. p. 7713) Sir R. Giffen quoted an estimate of his own given to the Labour Commission of £1,500 millions, and also one by Mr. Bowley in a Royal Statistical Society paper of £1,600 millions which he said he preferred.

1903. In a paper not published, based on various Inland Revenue and Board of Trade calculations, and submitted subsequently to these two statisticians, I put the figures at

Income-tax class - -	£750 millions (Nos. 900,000)
Intermediate - - -	205 millions
Manual labour - - -	700 ,,
Total - - -	£1,655 ,,

1904. Mr. Bowley in "Tests of National Progress" (*Economic Journal* for September, 1904) gave an amended estimate of £1,800 millions. Income-tax income between £800 and £900 millions, manual labour wages £750 millions. (He quoted an estimate by Sir R. Giffen at Southport of £1,700 millions for 1901.)

1908. In his *Elementary Manual of Statistics*, page 173, Mr. Bowley gave the following figures, which are not inconsistent with the above estimates:

1860	- - - -	£700 millions
1870	- - - -	950 ,,
1880	- - - -	1,150 ,,
1890	- - - -	1,350 ,,
1900	- - - -	1,650 ,,
1908	- - - -	1,800 ,,

adding that the latter total must be subject to considerable error, perhaps as much as 10 *per cent.*

Finally, in his valuable final report on the census of production (Cd. 6320, 1912), Mr. Flux gave an approximate figure, deducible from his returns, of 2,000 million pounds for 1907; and the *Statist* estimated the national income at 2,250 million pounds for 1912. On these lines there is nothing unreasonable in assuming a figure of 2,200 million pounds for the concluding year (1913) of my present series.

These estimates, as Mr. Bowley observes, may be "rough and uncertain," but "they are better than no estimates," and "can be used for such purposes as comparing the burden of taxation at different periods." Subject to Mr. Bowley's own warnings, I should be inclined to adopt his figures, beginning with say £1,300 millions for my opening year, 1887, and closing

with £2,200 millions for the present period, an increase of 69·23 per cent.

The statistical data, however, for this purpose are not as satisfactory as could be wished, mainly because of the conjectural character of all present estimates of the total wages *and earnings* of the manual labour and intermediate classes, and their savings or investments. It is to be hoped that when the occupation statistics from the 1911 census become available, both the Board of Trade estimates of manual labour wages and Mr. Bowley's estimate of intermediate class earnings may be amended, and something more trustworthy than anything hitherto put forward may be possible. In the years immediately succeeding the 1901 census there was a general agreement that the total income of the manual labour classes amounted to between 700 and 750 million pounds; and it was not very unreasonably assumed that the intermediate class had an income of between £200 and £300 millions, or say £1,000 millions between them,[1] against £750 millions belonging to the income-tax-payers, who then numbered with their families about one-ninth of the population. If these proportions are still substantially maintained, and the income-tax-payers now enjoy, say, £900 millions[2] per annum, the non-income-

[1] It is upon the latter two classes that the main burden of indirect taxation falls, and, as it would be difficult to establish any very marked difference in the consumption of dutiable articles between these two classes, it is unnecessary for this purpose to treat them separately.

[2] The latest available figure (1911-12, see Table VII.) is 866 million pounds. With very good years in the three years' average this figure is sure to have risen considerably since March 1912, and I have therefore decided to put it at 900 million pounds for the purpose of these calculations. For this particular purpose I should have been inclined to deduct a considerable sum for

tax-payers should share an aggregate income of something like 1,300 million pounds.

As regards the present number of income-tax-payers, the Chancellor of the Exchequer stated, in answer to a question in the House of Commons on May 28th, 1913, that it was estimated to be about 1,100,000. No certainty on this point is possible, but the figure corresponds with all the recent estimates which have been made, and may therefore be adopted.

At the average of 4·54 per "family," the income-tax-paying class would thus include just on 5 million persons, 10·85 per cent. of the estimated population in 1913 (viz. 46,036,000), or say *one-ninth*; with an income of £900 millions or £180 per head. Taking the number of income-tax-payers as equivalent to the number of "families" in this class (a very arbitrary assumption, but no other seems possible), the income per family would be £820.

The remaining 41 millions (non-income-tax-payers) would share a total income of 1,300 millions, or £31 18s. (say £32) per head, or, with say 9,000,000 families, roughly £144 per family.

Statistical approximations of this sort cannot, of course, be put forward with much confidence, except perhaps as regards the income belonging to the income-tax-paying class, until better information is available as to the earnings of the wage-earning classes. Even if they could be relied on they would be insufficient for the purpose of forming any final

income not received by individuals—at least the 50 million pounds assumed by Sir H. Primrose in 1906—a sum which would probably not be offset by the amount of evasion, so that I think 900 million pounds is quite an outside figure for the income of this class.

judgment on the effect even of the present arrangements, taken as a whole, for graduating the burden, so as to fit the shoulders best able to bear it. But, in view of the importance which has for so many years been given to the vital question of the relative burden of the two main classes, at all events, of tax-payers, not only, as we have seen, by discussions in Parliament, but by the publication of studies like Mr. Chiozza Money's remarkable work *Riches and Poverty* in 1905, it would be impossible to ignore it here. This must be my apology for attempting to put together some generally accepted estimates on the subject. Estimates of the national income and its growth and distribution are indeed essential if any measure is to be taken of the significance of the growth of revenue and expenditure, or any judgment formed on the equity of our present scheme of taxation. The primary incidence of the taxes is very far from being the whole matter, but it is that upon which all argument hinges and all fiscal legislation depends; and until some common ground, such as Lord Morley long ago desiderated (see p. 196), based upon facts and statistics can be agreed upon, no mere assertion of principles however sound is likely to reconcile the disputants to the justice of the claims made upon them by the State. How far these are at present from having reached any such common ground is shewn by the discussions raised by Labour Members during the last and present sessions on the tea duty.

(c) *Capital Wealth.*

The method adopted of estimating capital in the absence of anything better has been that expounded

in Sir Robert Giffen's *Growth of Capital* (1889), pp. 11 sqq., *i.e.* to capitalize the various items of the annual income-tax returns at so many years' purchase, adding estimates for items such as furniture and local property which do not appear in these returns. On these lines Sir R. Giffen arrived at a total for 1883 of £10,037,436,000 (ten thousand millions), or, omitting the item of £500,000,000 for Government and local property, £9,537,000,000 (nine and a half thousand millions).

The next estimate was that given by Sir Alfred Milner before the Royal Commission on Agriculture (vol. 4, page 583) in 1895. The two estimates are not strictly comparable as regards number of years' purchase for different items, but he gave a total for 1895 of £10,125,574,324. (The sum of 960 million pounds in the first and 1,000 million pounds in the second of these estimates relate to capital, furniture, etc., which does not produce income.)

Mr. Hirst's recent edition of Porter's *Progress of the Nation* quotes the following calculations from the *Economist* newspaper of national wealth made out on Sir Robert Giffen's principles :

1885 - - - -	10,037,000,000
1895 - - - -	10,663,000,000
1905 - - - -	13,036,000,000
1909 - - - -	13,986,000,000

In these calculations there is included 1,000 million pounds for non-income-producing capital and 630 million pounds for Government and local property, while the amount of the National Debt is not included. These corrections should be made for comparison with the amount of the income-tax assessments, or with

calculations on the method referred to in the next paragraph.

Another method of estimating capital in the hands of private owners is that based on statistics of successions derived from the returns of death duty. If the interval between successions to property can be established, and a "multiplier" for the annual amount of property passing at death which comes under the notice of the Inland Revenue department can be arrived at, this method appears to be the sounder of the two because the valuation of property for death duties gives an actual ascertained fact as to the market value at the date of death. I may refer to the discussion on this subject which took place on a paper read before the Royal Statistical Society on February 18th, 1908, by the present writer. I hope shortly to return to the question with fuller and more recent materials which will probably justify the raising both of the multiplier and of the sum to which it is applied beyond the figures suggested in 1908; but I may perhaps say that, as at present advised, I should be disinclined to estimate the total value of capital wealth in private hands at more than 8,000 million pounds as a maximum. The question of the discrepancy between these estimates is discussed in Mr. Bowley's *Elementary Manual of Statistics*, pages 182-184, and in Mr. A. W. Flux's Report on the First Census of Production (Cd. 6320, 1912, page 36). Such a figure as I have suggested is certainly difficult to reconcile with the indications given in this latter report (pages 35 and 36) of the amount of capital invested in enterprises in this country (manufacturing and others), taken in conjunction with the estimates

of the foreign investments of this country with which the name of Sir George Paish is associated. In a paper read before the Royal Statistical Society in June, 1909, he estimated the income returned by the Inland Revenue Commissioners and from other sources at 140 million pounds a year and the capital sum at 2,700 million pounds, almost equally divided between British Possessions and foreign countries. In a later paper (December, 1910) he put the sum of the foreign investments at 3,192 million pounds, and he estimates it, I understand, for the present date at 3,500 million pounds. No inordinate increase certainly on the 2,000 millions at which these foreign investments used to be put in the early eighties of the last century. Foreign investment on a large scale was resumed in 1907, after several years in which it had fallen to a low point; about 100 million pounds were then invested in that year, and in 1908 130 million pounds; and 160 million pounds and 165 million pounds in 1909 and 1910 respectively. The only information at present available on the still more important question of the amount of new capital and investment within the United Kingdom is that derived from Mr. Flux's report, above mentioned, in which this was put for 1907 at from 170 to 190 million pounds.

From the figures quoted, which are of interest here mainly in connection with the question of capital taxation by death duties, the extreme difficulty of reaching any trustworthy estimate of capital wealth or of reconciling the various estimates put forward will be apparent. The usual assumption is that national wealth increases about 2 per cent. per annum. But the increases on the *Economist* esti-

mates of capital wealth between 1885 and 1909, twenty-four years, (10,037 million pounds and 13,986 million pounds) is 39·34 per cent. or 1·39 per cent. annually. As will be seen from the figures given in Tables VIII. and IX. (estate and probate duty) there is no corresponding rise in the total value of the estates annually passing at death, which for some years has been almost stationary. The inference commonly drawn is that property owners have more widely adopted the practice of handing over large sums to their heirs in their lifetime. They have certainly done so; but a more important consideration is, probably, the great decline (which, however, would presumably also affect calculations of the growth of capital wealth) in the market value of certain classes of fixed interest-bearing securities. A comparison of the value of representative securities from the *Banker's Magazine* of a nominal value of over 1,000 million pounds between December, 1899, and December, 1910, shewed a fall of 17 per cent. Between 1900 and 1910 certain stocks selected from the *Investor's Monthly Manual* shewed the following declines. Consols 21 per cent., Local Loans and India 3 per cent. and 3½ per cent. stocks 13·6 per cent., Colonial Government stocks 6·9 per cent., British Railways debentures and preference stocks 20·6 per cent., Colonial Railways 6·6 per cent., British Municipal stocks 13·3 per cent. And since 1910 and 1911 there has been a further fall.

The number of estates (or persons) has on the contrary considerably increased, *i.e.* from an average for the composite year 1894-5 to 1900-1 of 58,875 to one for the composite year 1906-7 to 1912-13 of 69,279,

an increase of 17·7 per cent. The age constitution of this class is peculiar, containing, as it does, a high proportion in the older age groups, where the mortality is greater than in the general population; but, eliminating deaths under twenty-five from the latter, the deaths in the whole population increased between 1895 and 1911 by only about 5 per cent. (302,020 to 318,046), and it looks, therefore, as if there must have been an accession to the number of living property owners (among whom the 68,000 or 70,000 annual deaths occur) arising not only from the growth of the population but from the increase in the wealth of the community during the period. It may be inferred from the use of a multiplier that this increase has been, during the last eighteen years, about a quarter of a million persons, and that the total numbers may be now somewhat under two millions. This figure is, perhaps, not inconsistent with that suggested for the number of income-tax-payers, 1,100,000; as over 52 per cent. of persons dying leave estates of less than £500 in value, some of whom, however, would doubtless be income-tax-payers in their lifetimes. It may be noted that the aggregate value of the estates of this 52 per cent. is only 3·79 per cent. of the whole; and that persons owning properties up to the amount of £5,000, who number 89·66 per cent. of the whole, possess 21·31 per cent. only of the total property passing at death (see Table X.).

(4) Analysis of Revenue.

From the tables and estimates above described it is now necessary to summarize the main results. The

following columns shew the percentage of increase of the various heads of revenue classified as suggested on page 416. Under the head Taxes on Transactions (stamps and Post Office), the Post Office net revenue is given as well as the gross revenue, and a net as well as a gross total for this heading accordingly given also.

AMOUNTS.

Financial Year.	1887-8.	1892-3.	1898-9.	1905-6.	1912-3.
TAXES ON CONSUMPTION :	£	£	£	£	£
Food	5,545,926	4,121,450	4,912,252	14,099,755	10,294,514
Drink and Tobacco (excluding licences)	35,833,286	41,585,181	46,904,285	49,222,471	54,191,200
Total	41,379,212	45,706,631	51,816,537	63,322,226	64,485,714
DIRECT TAXES :					
Income-Tax	14,440,000	13,470,000	18,000,000	31,350,000	44,806,000
Death Duties	8,284,204	10,785,878	15,632,600	17,328,000	25,248,000
Total	22,724,204	24,255,878	33,632,600	48,678,000	70,054,000
House Duty, Licences, Railway Passenger Duty, and Land Value Duties	5,817,247	5,388,858	5,954,941	6,668,237	8,393,635
Total Direct Taxes	28,541,451	29,644,736	39,587,541	55,346,237	78,447,635
TAXES ON TRANSACTIONS :					
Stamps and Post Office (Gross)	15,315,797	18,297,152	23,490,000	29,190,000	39,234,000
Crown Lands, Land Tax, Suez Canal, and Miscellaneous	4,572,000	3,755,000	3,796,000	3,813,000	5,574,000
Total (Gross)	19,887,797	22,052,152	27,286,000	33,003,000	44,808,000
Stamps and Post Office (Net)	7,666,252	8,480,092	11,372,535	13,642,151	15,425,000
Total (Net)	12,238,252	12,235,092	15,168,535	17,455,151	20,999,000

PERCENTAGES OF INCREASE.

	1892-3 over 1887-8.	1898-9 over 1892-3.	1905-6 over 1898-9.	1912-3 over 1905-6.	1912-13 over 1887-8.
TAXES ON CONSUMPTION :					
Food - - -	*25·69 (decr.)*	19·19	187·03	*26·99 (decr.)*	85·62
Drink and Tobacco (excluding licences)	16·05	12·79	4·90	10·09	51·23
Total - - -	10·46	13·37	22·20	1·84	55·84
DIRECT TAXES :					
Income-Tax - -	*6·72 (decr.)*	33·63	74·17	42·92	210·29
Death Duties - -	30·20	44·94	10·85	45·71	204·77
Total - - -	6·74	38·66	44·73	43·91	208·28
House Duty, Licences, Railway Passenger Duty, and Land Value Duties -	*7·36 (decr.)*	10·50	11·98	25·87	44·29
Total Direct Taxes	3·87	33·54	39·81	41·74	174·86
TAXES ON TRANSACTIONS :					
Stamps and Post Office (Gross) -	19·47	28·38	24·27	34·41	156·17
Crown Lands, Land Tax, Suez Canal, and Miscellaneous	*17·87 (decr.)*	1·09	0·45	46·18	21·92
Total (Gross) -	10·88	23·73	20·95	35·77	125·30
Stamps and Post Office (Net) - -	10·62	34·11	19·96	13·07	101·21
Total (Net) - -	*·0003 (decr.)*	23·98	15·07	20·30	71·58

It thus appears that by far the largest percentages of increase over the whole period are in direct taxation; and of direct taxation almost exclusively in income-tax and death duties (now together 37·10 per cent. of the total gross revenue having risen from 21·30 per cent. in 1888). Stamps and Post Office (Transactions) come next (whether gross or net), both supplying services (see below, p. 449) principally to the

income-tax-payers. Food taxes, between 5 and 6 per cent. of the total revenue in 1912-13, shew a large percentage increase on small revenue figures, consumption taxes as a whole (34·05 per cent. of the total revenue in 1912-13), shew a smaller percentage of increase. The percentages of increases for the total gross revenue given in Table I. (foot) shew that the increase over the whole period is 110·24 per cent. gross (and 100·84 per cent. if Post Office net instead of gross revenue is taken), and in all cases, especially in that of direct taxation, the increases far exceed the percentage of increase in the population (see p. 428).

The effect of this increase of population, however, in mitigating the burden of fresh taxes or increased rates of duty is better shewn by the following figures

PER HEAD OF POPULATION.

Financial Year.	1887-8.	1892-3.	1898-9.	1905-6.	1912-3.
TAXES ON CONSUMPTION :	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Food - - -	0 3 0	0 2 2	0 2 5	0 6 6	0 4 6
Drink - - -	0 14 9	0 16 6	0 17 9	0 16 8	0 16 2
Tobacco - - -	0 4 9	0 5 3	0 5 5	0 6 2	0 7 6
Total - - -	1 2 6	1 3 11	1 5 7	1 9 4	1 8 2
DIRECT TAXES : Total -	0 15 7	0 15 6	0 19 7	1 5 8	1 14 4
TAXES ON TRANSACTIONS :					
Gross Total - -	0 10 10	0 11 6	0 13 6	0 15 4	0 19 7
Net Total - -	0 6 8	0 6 5	0 7 6	0 8 1	0 9 2
TOTAL REVENUE : Gross	2 8 11	2 10 11	2 18 8	3 10 4	4 2 1
Net	2 4 9	2 5 10	2 12 8	3 3 1	3 11 8

The figures in the above table are calculated on the estimated population at the middle of the financial year, the actual figures of the estimated population being : Sept. 1887, 36,670,000 ; Sept. 1892, 38,223,000 ; Sept. 1898, 40,479,000 ; Sept. 1905, 43,099,000 ; and Sept. 1912, 45,736,000.

of the amount per head of the different items of taxation. Here again the most striking growth is shewn under the head of direct taxation, though this is necessarily the group in which a calculation per head is the most misleading because of the small proportion of the population affected by it.

Even these figures, unless considered in connection with those of the growth of national income now to be referred to, fail to afford any sufficient means of judging of the ability of the population to bear the increased taxation. As good a test of this, however, as any which appear in these tables as regards the poorer classes is the consumption per head of dutiable articles (see Tables IV. and V.). Thus tea has risen from 5·03 lbs. in 1888, when the duty was at 6d. per lb., to 6·48 in 1912, when it stood at 5d., and the rise has been almost continuous each year, in spite of changes of the duty, except during 1902 to 1905, when there was a slight set back. Sugar since 1903 has risen from 72·99 lbs. to 79·10 lbs. in 1911, but the duty was halved in 1908-9 ; and tobacco from 1·48 lbs. in 1888 to 2·05 lbs. in 1912, though the taxation on this article has increased from 4s. 9d. per lb. to 7s. 7d. (It should be mentioned that these fairly favourable figures are slightly less favourable than they appear because of the larger proportion of persons over fifteen to those below that age which exists now in comparison with 1888.) The figures as regards beer and spirits are of interest, but the reasons which have checked consumption in their case do not for obvious reasons afford satisfactory evidence as to spending power.

The various indications of the welfare and progress of the country have often during this period been

dwelt upon with satisfaction by Chancellors of the Exchequer, but it would be quite beyond the scope of a special study of this kind to give such figures as those of the foreign trade, the clearing house returns and banking statistics, shipping, Post Office savings, pauperism, and so on. In view of assertions that the poorer classes have not fully shared in the increase of the national wealth it is to be regretted that there is no single publication to which reference can be made summing up all the available information on the subject on the lines of Sir Robert Giffen's essay in 1883 on the "Progress of the Working Classes in the last half century."[1] We have now a "more crowded population, more educated, more intolerant of preventible hardship" and attention is now happily so much directed to unfavourable symptoms and conditions that such a survey in these days would certainly be far less optimistic in tone, in spite of the fact that the taxation falling on the working man has not sensibly increased and that he gets much more from Government and other public agencies than thirty years ago. Direct evidence, moreover, on the point which, for the present purposes, is more important than any, that of the industrial efficiency of the nation, is still wanting; though, as future reports appear, the census of production should be of the greatest value for testing progress and comparing the soundness of conditions here with those in rival countries.[2] Mean-

[1] Reprinted in his *Economic Inquiries and Studies* in 1904.

[2] See, *e.g.* an article by Mr. Ellis Barker in the *Fortnightly Review*, August, 1913, on "Great Britain's Poverty and its Causes." Expert criticism of the comparative figures cited might probably moderate many of the conclusions drawn, but his main point is that American labour is far more productive than British, and American use of machinery far more ample.

while, all that can usefully be said here is that a considerable rise of wages has certainly taken place since the beginning of our period, even if, on the other hand, prices after falling to much lower levels in the interval have now again risen to something like the level of the eighties.[1]

(5) Relation of National Burdens to National Income.

Miscellaneous statistics of this kind could not in any case be quoted as giving any definite measure of the growth of " taxable capacity " in the community, or as throwing specific light on such questions as (1) whether the national income has risen in proportion to the growth of taxation, and (2) how far different classes have been affected by that growth. In a previous section the usually quoted estimates of national income and capital have been given, together with reasons for thinking that although they can only be approximate, they may afford some basis for comparisons. Take the following estimates of national income, more or less arbitrary as they must be :

	Million Pounds.	Increase.
1888 -	1,300	26·92 per cent.
1900 -	1,650	
1908 -	1,800	9·09 ,, ,,
1913 -	2,200	22·22 ,, ,,

[1] Mr. A. L. Bowley's *Elementary Manual of Statistics*, pp. 146-7. Wages at the maximum of 1907 were higher than in 1900, and considerably higher than at any previous period.

Since the above was written, a very important official Board of Trade publication dealing with working-class rents, retail prices, and rates of wages in certain occupations in industrial towns of the United Kingdom in 1912, has appeared (Cd. 6955, 1913), which gives a mass of information on these questions, but does not appear to necessitate a modification of the general statement in the text.

and, between 1888 and 1913, increase 69·23 per cent.

This increased income is, however, divided among a larger number of individuals, for during these years the population (see p. 428) has increased nearly 25 per cent. *On these figures the income* per head *would have increased from about* £35 *to* £48, *or* 37 *per cent. only.*

As the total gross revenue has grown by 110 per cent., or, counting the net postal receipts only as revenue, by 100 per cent., in the same period, a larger proportion of the national income is now drawn upon for taxation than was the case in 1888; and, while the indirect taxes on consumption mainly affecting the poorer classes have not increased in the same proportion as the aggregate or national income, direct taxation has increased in considerably greater proportion than that income.

On the above figures the proportion of the total revenue (gross) to national income was 6·92 per cent. in 1888 and 8·58 per cent. in 1913; or, if net postal revenue is substituted for gross, 6·31 per cent. and 7·50 per cent. respectively. The rates, however, are just as real a burden on the tax-payers as taxes themselves, though the distinction between onerous and beneficial expenditure should be borne in mind in this connexion; and adding rates for the two years 1888 and 1912 (33 million pounds and 75 million pounds, an increase of 127·27 per cent.), the percentages of which to national income stand at 2·54 per cent. and 3·4 per cent. respectively at the same dates, the total percentage figures of revenue and rates to national income in 1888 and 1912 would be *gross* 9·46 and 11·98, and *net* 8·85 and 10·90 respectively.

(a) *Proportion of National Burdens on the two main divisions of Tax-payers.*

The various sets of figures throw some light on the second question raised, the way in which the proportion of the burden of taxation borne by the two main divisions of the tax-payers (*i.e.* the income-tax-payers on whom the main burden of direct taxation falls and the rest of the population mainly affected by indirect taxation) has altered during the last twenty-five years. The official figures (Table XIV.) shew that whereas in 1887-8 the "direct" taxation stood at 45·6 per cent. of the whole and "indirect" at 54·5 per cent., in 1912-13 the corresponding figures were 57·6 per cent. and 42·4 per cent. The percentage of income-tax and death duties to the total gross revenue, which was 25·30 in 1888, had become 37·10 in 1913; while the proportion borne by the food taxes to the total revenue declined in the same period from 6·17 per cent. to 5·45 per cent., and that of the drink and tobacco taxation fell about 10 per cent.

But it is, perhaps, possible to get rather nearer to the facts. Estimates will be seen on p. 435 of the numbers and income of the income-tax-paying and non-income-tax-paying classes respectively. How much of the burden of taxation falls on each of these classes? For a rough calculation it may be assumed that the first of these two classes bears the whole of the income-tax and death duties, of the house duty $\frac{6}{7}$ths, liquor and other licences $\frac{3}{4}$ths, stamps $\frac{15}{16}$ths, Post Office $\frac{13}{18}$ths, drink revenue $\frac{1}{3}$rd, tobacco $\frac{4}{25}$ths, and food taxes $\frac{3}{7}$ths; and the non-income-tax-paying classes the rest. (These proportions are the result of

some careful studies, based as regards taxed articles of consumption upon family budgets, which I made a few years back with expert assistance for a similar calculation.) On this basis, and counting the net postal revenue only as a burden, the income-tax-payers bore as their share £45,944,000 in 1888 and £107,764,000 in 1913, an increase of 134·56 per cent., while the non-income-tax-paying classes bore £31,643,000 in 1888 and £50,290,000 in 1913,[1] an increase of 58·93 per cent.

Referring to the estimates of income put forward on p. 435 above, the taxation of the income-tax income (which increased between the two dates by 77·34 per cent.) is thus at the rate of 11·97 per cent., and that of the classes below the income-tax limit 3·87 per cent., or roughly 12 per cent. and 4 per cent. respectively. It will be remembered that the average income per head in the two classes was put at £180 and £32 respectively.

The same rates would apply to the average family income in the two classes. If it is objected that £144 per family is too high an estimate for the average family income of the non-income-tax-paying classes and it is preferred to put it at £120 (which implies a total income for those classes of 1,100 million pounds, and a total national income of 2,000 million pounds only), the proportion of taxation to family income in these classes is only 4·63 per cent.—*still not very much more than a third of the proportion in the income-tax-paying class.*

[1] Mr. Snowden, see below, put this at 60 million pounds and Mr. Asquith at 53 million pounds, but it is not clear whether these calculations include any post office revenue, gross or net.

(b) *Direct tax-payers.* Whatever view may be held of the justice, as an abstract question, of such an allocation as these figures indicate, it is undeniable that one of the most striking features of the finance of this period has been the great development of the direct taxation falling in the smaller and wealthier section of the community, and therefore the increasingly greater reliance of the revenue upon the income and property of a small minority of the taxpayers. What that development has been, and how it compares with the growth of population and income, has already been shewn. It need only be added that to give anything like a complete idea of the tax burden falling on this class, that of the rates or a large portion of them, say seven-tenths of a total sum of £75,000,000 [1] or 52½ million pounds should be added to the total of (in round figures) 108 million pounds of imperial taxation. This would be equal to nearly 6 per cent. on their income, and bring the *total* percentage up to 18 per cent. of the income.

The question of the allocation of these burdens between the different classes of income-tax-payers is quite as important in its way as that of its allocation between the income-tax-payers and non-income-tax-payers. But an essential preliminary would be to

[1] This is approximately the total amount of rates raised in the United Kingdom in 1910-11, the latest figures available. The remaining 22½ million pounds would be borne by the non-income-tax-payers, not directly for the most part, but included in their rentals. This would add 1·73 per cent. to the percentage of taxation to their total income at the present time (3·87 per cent.), or 5·60 per cent. in all. No real authority can be claimed for this allocation of the burden of rates, but it is probable that it does not err in the direction of underestimating the amount falling on the income-tax-payers.

ascertain the distribution of income within the class. Well considered estimates were made by Mr. Bowley and others for the Select Committee in 1906, but it remains true that the most detailed study of the present income-tax statistics would only produce conjectural and incomplete results. Some general remarks only are therefore possible in this place. The range of income in this class is of course very large, much larger than in the classes below it. The most satisfactory advance has undoubtedly been made during recent years in adapting taxation to the "ability" of the taxpayer by the various measures substituting progression for proportionality in the direct taxes—by abatements, differentiation and supertax; and the percentage of income absorbed by taxation and rates must therefore vary very widely from the average of 18 per cent. given above, possibly from 7 or 8 per cent. to something like 25 per cent. The income-tax and non-income-tax-paying classes shade off into one another about the £160 limit, and there would be no marked difference in the burden of taxation borne by individuals at that point. Further up, owing to the imperfection of the present system of graduation by abatements and differentiation, there are points at which considerable inequalities would occur.[1] The number of claims for abatement

[1] A more equitable and systematic graduation (as often urged by Mr. Chiozza Money in order to increase the yield of the tax still further, see, *e.g.* his speech in the budget discussion of April 28th, 1913) is probably the next stage to be looked for in the development of the income-tax. Not very much more than is now done in the direction of declaration of individual incomes is needed to transform the tax into one much more on the German model as regards graduation, while retaining the advantage of taxation at the service; and such a change might not only do

was 940,000 in 1911-12, which would go to confirm the usual estimate that incomes between £160 and £700 per annum form between 70 per cent. and 80 per cent. of the whole number of income-tax-payers; and it would appear probable that this great majority of the income-tax-payers own less than half the total income, and that to judge from the estate duty statistics (see Table X.) they possess only a small proportion of the realized property of the country.

There is a widespread impression that the smaller middle classes in this country [1] suffer more from the effects of taxation than some other classes. If this is the case, it arises rather from the fact that their needs and aspirations (clothes, housing, education, amusement) are greatly in advance of their income than from any increased burden now falling on them. The poorer among them, indeed, are in the same position as manual workers as regards indirect taxation; but as income-tax-payers they have benefited by the extensions of the abatement system and the introduction of differentiation, so that the rise in the nominal rate of the tax has hardly affected them. On the other hand they would be the chief sufferers by the great

away with much complication in the present tax but also facilitate the adoption of a local income-tax (as in Prussia) which would be one solution of the question of rates. The vast majority of the income-tax-payers were, of course, obliged to declare their income for the purpose of abatement alone even before the legislation of 1907 and 1909 (differentiation and super-tax).

[1] The late Lord Goschen's inquiry into the progress of middle class incomes is the most recent and authoritative attempt to elucidate their position from the revenue statistics, and the result, though necessarily inconclusive, was not unfavourable (see *Essays and Addresses on Economic Questions*, 1905: "The Increase of Moderate Incomes").

rise in local rates; they do not directly benefit by expenditure on "social services," and as property owners they are not in so good a position as they might be if thrift were a national characteristic. The French middle classes, to judge from succession duty statistics and other sources of information, are financially a much stronger element in the State than our own. We should have to look to a small minority of the income-tax-payers, whose condition certainly debars them from any chance of popular commiseration, to find the class upon whom the full brunt of direct taxation falls. Possibly the highest percentage of taxation to income may occur in the case of incomes of from £2,000 or £3,000 to £5,000 or £6,000 a year, a class constantly recruited, indeed, from the ranks of commerce and finance and with a large aggregate income,[1] but containing many persons with inherited wealth and responsibilities, especially connected with the ownership of land, by whom the pressure of taxation would be much more severely

[1] The super-tax statistics now shew about 150 million pounds of income shared by 12,000 persons, but no figure is available of the amount of income taxed at the "unearned" rate, either between £700 and £2,000 per annum or beyond that up to £5,000 per annum. It is thought, however, that income-tax is levied on about 480 million pounds of income from the property and capital which is subject to death duties. How large a proportion of the taxation of this property and income, by the two great direct taxes, is borne by the incomes above £700 per annum, there are no figures to shew; but all the indications point to its being a large one. The latest Inland Revenue Report (for 1912-13, Cd. 7000, 1913) gives the distribution of the £866,453,803 of taxable income in 1911-12 as follows: At the 9d. rate (*i.e.* earned income up to £2,000 p.a.) £221,098,404; at the 1s. rate (earned income exceeding £2,000 but not exceeding £3,000) £12,878,119; at the 1s. 2d. rate, £632,483,280. Out of this latter amount would come the assumed £480 millions of unearned income distributed in unknown proportions between all grades of income-tax-payers.

felt than by the owners of the really great incomes, in spite of high graduated rates of estate duty and the super-tax affecting the latter.

Opinion, of course, is sharply divided as to whether the rates of direct taxation are dangerously high or not. Much has been heard in budget discussions and elsewhere of the discouragement to investment and business enterprise at home and of the tendency to place capital abroad; attention is especially drawn to the operation of the death duties and to the unprogressive character of the figures of property annually coming under the cognizance of the inland revenue department for the assessment of estate duty compared with what is believed to be the annual growth of capital wealth; and it is held in some quarters that serious inroads are being made on the accumulated wealth of the country which will before long shew itself in the death duty returns (see, *e.g.* an article by Sir Felix Schuster in the *Nineteenth Century and After* for July, 1910). Those who do not share such fears point with confidence to the visible signs of wealth and luxury, and to gigantic figures of profits in certain directions, and growing investment of great surpluses at home and abroad. Observers form their opinion on the facts which come under their immediate notice, and the available and quoted statistics are perhaps not sufficient to be wholly convincing on either side of the controversy. In a period, however, of great and continued financial and commercial prosperity high direct taxation (income-tax, death duties and licences) whatever its effect on certain interests may have been, appears to have had no detrimental effect on the yield of the taxes; and, as far as can be judged,

it has not impaired either the desire or the capacity for accumulation. Time alone can answer the further question which is so often asked, how far this taxation may have impaired the financial reserve upon which the country must rely in future emergencies, or may have placed her at a disadvantage as compared with countries in which these particular resources have been less largely drawn upon.

(c) *Indirect tax-payers.* As regards the burden falling on the non-income-tax-paying classes, if this is at all correctly represented by the estimate which has been given above, it may be argued that 4 per cent. (or, with rates, 5·60 per cent.), is still a much more serious drain upon a very small average income than 12 per cent. or 18 per cent. upon an average income six times as large. No satisfactory answer to such a contention is possible. The question is one inevitably raised by any allocation of taxation into which the idea of varying the rate or burden in accordance with the supposed capacity of classes or individuals enters. Much depends on the general sense of a community at any particular time. Criticism, however, is limited by practical considerations, such as the need for revenue and the impossibility, from this point of view, of dispensing with taxation which falls upon the masses of the people. These and other considerations, quite as important in their way, are well brought out by the answers quoted below to those who, not content with the extent to which the poorer classes have been relieved of the burden of the additional public expenditure incurred in these years, advocate the total exemption of all incomes below a certain minimum from taxation. This idea has met with little general

acceptance, and by no one has it been more strongly repudiated than by those ministers who have been chiefly responsible for the recent developments in finance. Mr. Lloyd George, for instance, has on more than one occasion expressed the opinion that all classes should contribute to taxation " in proportion " to their means (see p. 329). On June 2nd, 1913, speaking on food taxation in the House of Commons, while he made a point of the reduction of £5,000,000 in the taxation on food by the Liberal Government, and stated that this class of taxation was already less than in any other great civilized country in the world (United Kingdom £10,000,000, United States of America £14,000,000, France £16,000,000, Germany £30,000,000), he argued against the proposal " to take £10,000,000 of taxation off a very considerable proportion of the population of this country who have great political power and to leave them without any taxation at all. . . . You must not leave a class which have great political power and control over expenditure without any share of responsibility." He did not, apparently, see his way to any further increase at the present time of the income-tax or death duties, and challenged his opponents as to the possibility, with all the growing demands on the revenue, of dispensing with this sum or of suggesting any method of replacing it. " There is only one way in which you can really get the working classes to contribute fairly, and that is undoubtedly the method adopted in the Insurance Act, where the tax falls on the man who is actually earning wages at the time. I would like to see the Chancellor of the Exchequer who would go out of his way to propose that. I have made a proposal of that kind and it

will last one Parliament. It is a perfectly straightforward tax, and I agree that if Right Honourable gentlemen opposite proposed to put that on as a substitute for the present taxes there would be something to say." The Prime Minister was even more emphatic a few days later : " I have never committed myself," he said, " to any such position, and I have never seen my way, since I had to do with these matters as a practical and responsible statesman, to any rearrangement of our fiscal system which ought not and would not of necessity involve the imposition upon all classes without any distinction—I am not speaking of those who are below the poverty line—in this country of something in the nature of an adequate proportionate contribution to our national expenditure. I do not think there is any doctrine more fatal to the root principle of democratic Government than that it should consist of the constant amelioration at great expense to the community of the social conditions of the less favoured classes of the country at the sole and exclusive expense of the other classes." Finally, Mr. Austen Chamberlain, in endorsing the view that no class of the community should be exempt from contributing, said he would put the limit of total exemption very low indeed, and would not exclude anybody who was able to maintain himself.

If, then, it may be assumed that the principle that all classes should contribute to taxation is accepted by both political parties, the circumstances which mitigate the severity of the considerable amount of taxation (not at all confined, as rather implied in the above statement, to " food " taxation), which actually

falls in a primary sense on the "working" classes, may be noted.

(i) That all this taxation both Imperial and local (rates being paid so far as they fall on these classes at all in increased rent) is indirect. Sir Robert Giffen once observed that "on the whole an equal amount of indirect taxation causes perhaps only the half or the third of the privation and suffering entailed by an equal amount of direct taxation." Those who would reject so extreme a statement as this would admit the probability that the majority of those subject to the tea and sugar duties hardly realize that they are contributing to taxation. The danger of this state of things with the present distribution of voting power has, of course, been a frequent subject of remark in these discussions.

(ii) That far the larger proportion of the indirect taxation falling on these classes is, in a sense, of a voluntary character. The distinction, indeed, between the duties on alcohol and tobacco and the "food" taxation proper has been too much insisted on, Mr. Asquith having gone so far as to describe the former as "sumptuary taxation" and "taxes on luxuries and superfluities." It is, perhaps, not quite so simple a matter to discriminate between luxuries and necessaries; and to do so in this case is to minimize unduly the amount of taxation which, as human nature is at present constituted, certainly does fall on the working class family budget. The future, though not the immediate future, of this branch of taxation may perhaps be looked upon with some anxiety. There is no doubt that the consumption of alcoholic liquors is far in excess of the legiti-

mate requirements of the population, and that any pronounced change of habits such as that which has occurred in the wine-drinking class would endanger it; while the working classes may not be willing to acquiesce indefinitely in an almost penal taxation of tobacco. In both these ways difficulties might be created for a Chancellor of the Exchequer, and a stimulus given to the demand for a revision of the whole scheme of indirect taxation. At present, however, the fact that abstention from drinking and smoking is possible and not uncommon, is held to excuse the very high rates of duty both upon alcohol and tobacco, and criticism from whatever quarter is therefore generally confined to the duties on tea and sugar.

These duties are exposed to attacks not only from the advocates of the total exemption of the poorer classes from taxation, but also from those who see danger in exclusive reliance upon one or two great sources of revenue; and the position of this branch of indirect taxation is therefore not so secure as might appear from the strong arguments advanced in its support. It is contended that these duties are necessarily kept at so high a level as to impair the elasticity of the system by making it difficult to increase them sensibly to meet emergencies, and that the only alternative is to broaden the basis by bringing other articles under contribution. Such views, as will have been noted in the accounts of the budgets, have always had strong partizans, and have recently been put forward again in an interesting speech by Mr. Austen Chamberlain in the House of Commons (June 2nd, 1913) in which he dealt with the question

of the effect, both on the revenue and on the consumer, of duties on articles which can and cannot respectively be produced in the country. Apart from this difficult and important but highly controversial question, the incidence of these duties is held to be unequal and unfairly oppressive to the smallest incomes, the family with £3 a week consuming no more, or hardly more, tea and sugar than the family with £1 a week. It is, perhaps, not altogether unsuitable that the poorer section of these classes which benefits the most from the expenditure designed to assist the poor, should thus contribute a rather larger proportion to the revenue; but no doubt the charge of some inequality is true. The only reply, in fact, is that the amount of this "food" taxation is small both actually and proportionately to the whole revenue raised, and that nothing but the taxation of articles of universal consumption has as yet been suggested which so fully meets the requirement described in the foregoing quotations of "reaching every household" (see also Sir Michael Hicks-Beach's definition, p. 170).

One resource indeed, that of a direct tax, however small, on every wage-earning citizen, is often discussed, not as an addition to the taxation of the wage-earning classes, but as an alternative to the existing food taxes; and has of late received more serious consideration in the quarters that count in the matter than ever before (see, *e.g.* speech by Mr. James Parker, M.P., April 22nd, 1913). It would be interesting to discuss the reasons, whether political reasons or revenue reasons, why the income-tax exemption limit has been placed, and how it can be maintained at so low a figure as it is in most

continental countries.[1] In this country such a change could never come about except with the consent of the classes concerned; and the time has not yet arrived when they seem likely to demand it even with the wholly desirable object of enforcing upon their members the realization of responsibility for expenditure. If, however, an income-tax should ever come to be preferred to food taxation as being more equitable in its incidence, the method of insurance contributions may suggest machinery by which the difficulty of collection might be surmounted; but direct taxation of the masses of the people is unfortunately never likely to be either so productive or so elastic as taxes upon articles of general consumption.

(iii) The question which has often been raised whether expenditure incurred for the direct benefit of the poorer classes should not be set off against their share of taxation in any consideration of its equity, has been brought into fresh prominence by the recent great increase of that expenditure, and has of late been the subject of some very interesting remarks in the House of Commons.

	PER ANNUM.		PER ANNUM.
[1] Prussia - - -	at £45	Italy statutory figure (by graduation arrangements it varies from £21 7s. 6d. to £32) - - -	£16
Saxony - - -	,, 20		
Baden - - -	,, 45		
Hesse - - -	,, 25		
Wurtemberg - -	,, 25		
Austria - - -	,, 50		
Holland - - -	,, 54	Spain (for private individuals) - -	45
Norway - - -	,, 18		
Sweden - - -	,, 24	Spain (for State employees)- - -	at 31
Denmark (according to locality) - -	,, 33 / ,, 39 / ,, 44		

See Graduated Income Taxes Report, page vii, by B. Mallet, Cd. 2587, 1905.

Mr. Snowden, in an amendment to the Finance Bill of 1913 to substitute for the taxation of food "further direct taxes on unearned income and large estates," himself admitted a "set off" of 39 millions per annum "for services for the benefit of the working classes" against the 60 million pounds at which he put their total contribution to taxation; but, as he denied that the working classes had any interest in the maintenance of the Army and Navy, he considered that even the 20 millions which remained as their net contribution was excessive (June 2nd, 1913, Parliamentary Debates). The Prime Minister dwelt upon this point in a speech a few days later (June 11th, 1913), demurring to the view that "any class of the community, working class or any other class, can be treated as receiving no benefit from the expenditure of the State upon the Army, Navy, or civil service," and urging that the only justification for our "enormous and increasing national expenditure was that it was warranted in the common interests and not in the interest of one class alone." But while he, therefore, protested against setting up a debtor and creditor account as between the working class and the State, he took occasion to criticize, on the one hand, Mr. Snowden's estimate of the contribution of the working classes as being too high, and on the other, his estimate of the amount which those classes received as being under the mark; and pointed to a large growth of expenditure (outside the special items which had been enumerated by Mr. Snowden) in many great departments of State due to provisions which had been made "exclusively for the benefit of the working classes."

Admittedly, therefore, the benefit received by certain large classes of the population is an important consideration in any estimate of the amounts of taxation falling upon them, although if this expenditure is looked upon as "investment for the general good" some contribution from the class which does not directly benefit is certainly justifiable. It is, of course, true that the whole community would benefit by expenditure successfully directed to raising the level in the poorer classes. The question of the amount and growth of the expenditure of the kind which may be held to be a "set off" against this taxation is referred to in the next section under the head of "Social Services."

(6) Analysis of Expenditure.

The figures of the total expenditure, like those of revenue with which it roughly corresponds, shew that expenditure has outstripped both population and national income in its growth. As in the case of revenue, however, the detailed figures are of greater interest than the totals.

(a) *Debt.*

It will be seen from Tables XV. and XVI. that the percentage to the total expenditure of the provision for the service of the Debt has considerably decreased since 1888, owing, of course, to the increase of other items of expenditure. It bears also a lessened proportion to the capital wealth.

The amount of debt per head of the population, whether of Dead-weight Debt alone or of the whole capital liabilities, has fallen from £20·09 to £14·37

in the first case, and from £20·11 to £15·56 in the second. If, however, the figures for local indebtedness are added to the latter amounts the total figure has, on the contrary, increased from £26·32 per head in 1888 to £30·99 in 1910-11.

The Dead-weight Debt stands at a lower figure per head than in 1899-1900 (before the South African War), but if the Other Capital Liabilities are added, the figures are practically the same as on that date.

The National Debt figures are the only figures which can be looked on with satisfaction, a satisfaction, however, tempered by the reflexion that the higher the general rate of taxation the more inevitable is a resort to fresh borrowing whenever the next national crisis occurs.

(b) *Local Taxation, Defence Services, and Social Services.*

The other main items on which a word of comment is required are those of (1) Army and Navy, (2) Social services and (3) Payments to local taxation accounts. The expenditure on postal services and collection of revenue indeed shews a growth of 153·27 per cent. (from £10,749,098 to £27,224,000), but as this expenditure, or the main bulk of it (post office), is governed by the amount of the services supplied to, and paid for, by the public, as the post office expenditure has been swollen in recent years by the growth of the telephone service, and as the net postal revenues have increased (though not in proportion to the gross revenue), no special remark is called for on

this item, which, however, is of the greatest interest to students of State monopolies.

(i) Taking first the contributions to local taxation, it need only be observed that, to judge from all the recent utterances in the House of Commons, a revision of the relations between Imperial and local finance cannot long be postponed, and that, even apart from the promised education reforms which, we are told, will involve largely increased grants, it can hardly fail to involve fresh demands upon the taxpayers.

(ii) The total expenditure on the defence services (Exchequer issues) is given in Table XX., and amounts to almost exactly the sum raised by income-tax and death duties. The proportion to the total gross expenditure of the nation has risen but slightly, from 34·88 per cent. to 38·40 per cent., but this head is still the largest single item of the national outlay. The percentage of increase (Army and Navy combined) between 1888 and 1913 is 137·56 per cent.; for percentages of increase in Army and Navy, both separately and together, see Table XX. It should be added that the contributions of the Government of India in payment of British troops is not included in these figures, and that the annual cost of the National Debt is mainly the result of expenditure incurred in former years for the preservation or aggrandisement of the empire. Little need be said on this item, which has been a constant topic both of excuse and complaints in parliamentary discussion on finance. Looked at as an insurance it amounts to 3·3 per cent. of the national income as against 2·3 per cent. in 1887. But it must be

remembered that all the conditions of the naval supremacy upon which the existence of Great Britain and the British Empire depends have been revolutionized during the period covered by these dates, and that this class of expenditure is to a much less extent under our own control than that required for domestic purposes.

(iii) If, however, we take one of the groups which includes the latter purposes we find even more impressive figures (see Table XXII.). While civil services proper have risen between 1888 and 1913 from something under £15,000,000 to £18,000,000, or by 19·61 per cent. only, "Social Services" have gone up from something under £5,000,000 to £35,500,000, or by 630·13 per cent., the increase since 1906 being 123·31 per cent. The great proportional increase in this case is, of course, due to the fact that the bulk of the expenditure is of recent origin, while the figures for the opening years were comparatively very small. The cost per head of the military services and social services is as follows:

	1887-8.	1892-3.	1898-9.	1905-6.	1912-13
Total Army and Navy -	£0 16 8	£0 16 8	£1 1 9	£1 8 10	£1 11 8
Total Social Services	£0 2 8	£0 4 2	£0 5 5	£0 7 5	£0 15 7

But this is not the whole story as regards the latter group. A very large addition in the shape of local expenditure met mainly from the rates, but equally with Imperial expenditure a burden upon the community, must be added to the totals for Social Services if a true comparison of the burden per head is to be obtained. The two chief items of expenditure

defrayed from the rates which thus fall to be added would be approximately as follows :

	1887-8.	1911-12.
Poor Law, England and Wales -	£7,000,000	£11,250,000
Poor Law, Scotland and Ireland -	£1,750,000	£2,100,000
Education, Great Britain - - (Elementary and higher)	£2,900,000	£15,850,000
Total - - -	£11,650,000	£29,200,000
Per head - - -	6s. 4d.	12s. 10d.

The increase is 150 per cent., and the total expenditure under the head of " Social Services " *from taxes and rates combined* then becomes £16,500,000 for the first year of the series and £64,800,000 for the last,[1] or per head 9s. and £1 8s. 5d. respectively.

Mr. Geoffrey Drage urged, in a letter to the *Times* on January 24th, 1913 and in subsequent letters, that an annual return should be given of the expenditure (central and local) on various forms of " Public Assistance " which, as he defined it, would be fuller and more complete than, but on somewhat the same lines as, the above heading " Social Services." Mr. Pretyman accordingly asked on June 17th, 1913, for a figure shewing the " direct beneficiary assistance " to individuals for the years 1890-1, 1900-1, and 1910-11, and the President of the Local Government Board, in reply, gave the following statement for England and Wales only (see p. 469).

Mr. Drage, in a subsequent letter to the *Times* (June 30th, 1913), estimated that when figures for the current year and for the whole United Kingdom

[1] Not including Exchequer Poor Relief Grants, which might amount to £900,000 in 1887-8, and about £3,000,000 in 1912-13, nor the expenditure on Development and Road Funds (see p. 324), which have Unemployment Relief as an object in view.

Statement showing (approximately) according to the Returns received by the Local Government Board, the gross expenditure (other than out of loans, but including loan charges) of local authorities in England and Wales in each of the years 1890-1, 1900-1, and 1910-11, on the under-mentioned services or purposes; and distinguishing, for the year 1910-11, the amount of such expenditure estimated to have been met from (1) public rates, (2) Exchequer Grants, and (3) other receipts; also showing the approximate cost of old age pensions in England and Wales in the last-mentioned year.

Service or Purpose.	Year 1890-91.	Year 1900-1.	Year 1910-11.			
			Estimated to have been met from :—			Total.
			Public Rates.	Exchequer Grants	Other Receipts.	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	£	£	£	£	£	£
Relief of the Poor - - - -	8,500,000	11,550,000	11,760,000	2,450,000	810,000	15,020,000
Unemployed Workmen Act, 1905, -	—	—	70,000	80,000	30,000	180,000
Hospitals provided by Local Authorities other than Poor Law Infirmaries - - - - -	330,000	1,330,000	*1,800,000	* —	50,000	1,850,000
Education (Provision of Meals) Act, 1906- - - - - - -	—	—	12,180,000	11,530,000	360,000	150,000
Medical Inspection and Treatment of School Children - - -	—	—				180,000
Other Expenses of Elementary Education - - - - -	5,420,000	11,290,000	2,090,000	1,780,000	660,000	23,740,000
Higher Education - - - -						4,530,000
Totals - - -	14,250,000	24,170,000	27,900,000	15,840,000	1,910,000	45,650,000

Approximate cost of Old Age Pensions in England and Wales in 1910-11, £6,246,000.

* Some indistinguishable portion of the sum of £1,800,000 entered in column 4 may have been met out of the grant under the Agricultural Rates Act, 1896, and the "free balances" of the Exchequer contribution accounts.

had been included the total would amount to not less than £66,000,000, and added "when we have got these figures completed for direct beneficiary assistance we can then return to indirect assistance, such as that involved in cheap railway and tram fares, labour exchanges" (included, however, in the above head "Social Services"), "public baths, and workhouses, etc.; and even so, we shall leave out the vast expenditure on Public Health and Sanitation, Factory and Workshop and Mine Inspection, which appears to me to be more in the category of what I should term Sanitary Police."

The growth which has thus occurred in this branch of expenditure is the outcome of what is nothing less than a revolution in public sentiment and political thought as to the limits of State action. In their extreme form these views have been represented in the parliamentary discussions of the last few years by those who advocate the appropriation of as large a proportion of the national income in taxation as possible, on the ground that its distribution by the State would lead to the needs of individuals being better supplied than at present, and the true burden on the nation as a whole thereby lightened. Many who would dissent from any such theory yet hold that a portion at all events of this outlay should not be considered a real increase of the national expenditure, such reforms, for instance, as Free Education and Old Age Pensions being rather of the nature of a transference of than an addition to expenditure, and that all such expenditure if it results in increased national efficiency may in the end prove reproductive, even from a revenue point of view. Giving the fullest

weight to such considerations, however, it remains equally true that increased revenue has to be found to meet the increased charges thrown on the budget, and, when it is added that, as the experience of the last four years has shewn, this expenditure is liable to increase at a rate altogether beyond budget previsions, and that, owing to the variety of overlapping public authorities now responsible for it, its control is necessarily less effective than that of ordinary departmental expenditure,[1] it is evident that this branch of public expenditure shares with those of expenditure on Defence and on Local Subventions an almost inevitable prospect of increasing growth. Together these three branches constitute over 60 per cent. of the gross Imperial expenditure.

On both aspects of the subject, the national expenditure and the national revenue, the main facts and considerations have now been indicated. It is sometimes assumed that there must be a fixed percentage of the aggregate income beyond which it is dangerous that taxation should rise. The late Sir Robert Giffen, for instance, who, however, was little troubled by such fears, once expressed the opinion that 10 per cent. was not an unreasonable proportion to appropriate to the services of the State. In reality there is very little guidance to be obtained from any such assumption. The amount of this appropriation will always depend upon a variety of considerations, the international position or circumstances of a country, the sentiment of the community on the question

[1] See on this point an article by Mr. W. A. Bailward, "Some Recent Developments of Poor Relief" in *The Economic Journal*, December 1912.

of the domain of State activities, the distribution of the taxable wealth in a community and the command which a Government may have over the resources of its subjects; upon the necessities of the State, in short, on the one hand, and the limitations imposed by the difficulty of raising revenue on the other.

TABLES.

TABLE

SUMMARY OF REVENUE (AS IN SEPARATE BUDGET STATEMENTS) 1887-8 TO

Financial Year (ending 31st March).	Customs.	Excise.	Death Duties.	Stamps.	Land Tax.	House Duty.	Income Tax.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	£	£	£	£	£	£	£
1887-8	19,630,000	25,620,000	8,284,203	4,715,797	1,030,000	1,940,000	14,440,000
1888-9	20,067,000	25,600,000	6,598,620	5,671,380	1,020,000	1,940,000	12,700,000
1889-90	20,424,000	24,160,000	6,884,538	6,175,462	1,035,000	1,965,000	12,770,000
1890-1	19,480,000	24,788,000	7,484,643	5,975,357	1,030,000	1,570,000	13,250,000
1891-2	19,736,000	25,610,000	8,281,850	5,418,150	1,050,000	1,434,000	13,810,000
1892-3	19,715,000	25,360,000	8,387,848	5,417,152	1,040,000	1,410,000	13,470,000
1893-4	19,707,000	25,200,000	7,616,632	5,243,368	1,035,000	1,425,000	15,200,000
1894-5	20,115,000	26,050,000	8,754,343	5,685,657	1,015,000	1,435,000	15,600,000
1895-6	20,756,000	26,800,000	11,600,000	7,350,000	1,015,000	1,495,000	16,100,000
1896-7	21,254,000	27,460,000	10,830,000	7,350,000	920,000	1,510,000	16,650,000
1897-8	21,798,000	28,300,000	11,100,000	7,650,000	940,000	1,510,000	17,250,000
1898-9	20,850,000	29,200,000	11,400,000	7,630,000	770,000	1,600,000	18,000,000
1899-1900	23,800,000	32,100,000	14,020,000	8,500,000	790,000	1,670,000	18,750,000
1900-1	26,262,000	33,100,000	12,980,000	7,825,000	755,000	1,720,000	26,920,000
1901-2	30,993,000	31,600,000	14,200,000	7,800,000	725,000	1,775,000	34,800,000
1902-3	34,433,000	32,100,000	13,850,000	8,200,000	725,000	1,825,000	38,800,000
1903-4	33,850,000	31,550,000	13,000,000	7,500,000	725,000	1,925,000	30,800,000
1904-5	35,730,000	30,750,000	12,350,000	7,700,000	750,000	2,000,000	31,250,000
1905-6	34,475,000	30,230,000	12,970,000	8,180,000	720,000	1,950,000	31,350,000
1906-7	32,930,000	30,350,000	14,400,000	7,950,000	710,000	1,890,000	31,600,000
1907-8	32,490,000	35,720,000	19,070,000	7,970,000	730,000	1,960,000	32,380,000
1908-9	29,200,000	33,650,000	18,370,000	7,770,000	730,000	1,900,000	33,930,000
1909-10	30,348,000	31,032,000	21,766,000	8,079,000	150,000	560,000	13,295,000
1910-11	33,140,000	40,020,000	25,452,000	9,784,000	1,220,000	3,080,000	61,946,000
1911-12	33,649,000	38,380,000	25,392,000	9,454,000	750,000	2,130,000	44,804,000
1912-13	33,485,000	30,000,000	25,248,000	10,059,000	700,000	2,000,000	44,806,000

Between	1887-8 and 1892-3	1892-3 and 1898-9	1898-9 and 1905-6	1905-6 and 1912-13	1887-8 and 1912-13
Percentages of increase of total (gross) revenue (col. 15) -	8·69	20·74	30·56	22·70	110·24
Or if Post Office net revenue is substituted for gross - -	6·86	20·44	30·82	19·27	100·84.

I.

1912-13, TOGETHER WITH REVENUE PAID TO LOCAL TAXATION ACCOUNTS.

Land Value Duties. (8)	Post Office Services. (9)	Crown Lands. (10)	Suez Canal and Interest on Advances. (11)	Miscellaneous. (12)	Total. (13)	Revenue paid to Local Taxation Accounts and not included in Previous Columns. (14)	Total (Gross)* Revenue. (15)
£	£	£	£	£	£	£	£
—	10,600,000	390,000	242,000	2,910,000	89,802,000	—	89,802,000
—	11,180,000	430,000	240,957	3,024,855	88,472,812	1,400,000	89,872,812
—	11,770,000	430,000	279,155	3,411,161	89,304,316	5,186,000	94,490,316
—	12,260,000	430,000	241,935	2,979,177	89,489,112	6,974,000	96,463,112
—	12,630,000	430,000	222,000	2,373,000	90,995,000	7,582,000	98,577,000
—	12,880,000	430,000	220,000	2,065,000	90,395,000	7,214,000	97,609,000
—	13,010,000	420,000	219,000	2,058,000	91,134,000	7,164,000	98,298,000
—	13,340,000	410,000	413,000	1,866,000	94,684,000	7,014,000	101,698,000
—	14,220,000	415,000	690,000	1,533,000	101,974,000	7,366,000	109,340,000
—	14,770,000	415,000	694,000	2,097,000	103,950,000	8,249,000	112,199,000
—	15,180,000	415,000	734,000	1,737,000	106,614,000	9,402,000	116,016,000
—	15,860,000	430,000	713,000	1,883,000	108,336,000	9,521,000	117,857,000
—	16,650,000	450,000	834,000	2,276,000	119,840,000	9,965,000	129,805,000
—	17,250,000	500,000	830,000	2,243,000	130,385,000	9,740,000	140,125,000
—	17,790,000	455,000	870,000	1,990,000	142,998,000	9,714,000	152,712,000
—	18,380,000	455,000	958,000	1,826,000	151,552,000	9,767,000	161,319,000
—	19,150,000	460,000	983,000	1,603,000	141,546,000	9,795,000	151,341,000
—	19,930,000	470,000	1,014,000	1,426,000	143,370,000	9,812,000	153,182,000
—	21,010,000	480,000	1,099,000	1,514,000	143,978,000	9,901,000	153,879,000
—	21,425,000	520,000	1,098,000	1,941,000	144,814,000	10,222,000	155,036,000
—	22,300,000	520,000	1,190,000	2,208,000	156,538,000	—	156,538,000
—	22,300,000	530,000	1,171,000	2,027,000	151,578,000	—	151,578,000
—	23,030,000	480,000	1,269,000	1,688,000	131,697,000	—	131,697,000
520,000	24,350,000	500,000	1,235,000	2,604,000	203,851,000	—	203,851,000
481,000	25,700,000	530,000	1,281,000	2,539,000	185,090,000	—	185,090,000
455,000	29,175,000	530,000	1,419,000	2,925,000	188,802,000	—	188,802,000

* It is the total (gross) revenue shewn in col 15, upon which the percentages referring to "Total (Gross) Revenue" in the following tables are calculated.

TABLE

SUMMARY OF EXPENDITURE (AS IN SEPARATE BUDGET
TO LOCAL TAXATION ACCOUNTS AND THE

Financial Year (ending 31st March).	Consolidated Fund.		Army.	Navy.	Civil Services.	Customs and Inland Revenue.
	Debt Charge on Consolidated Fund.	Other Charges.				
	(1)	(2)	(3)	(4)	(5)	(6)
	£	£	£	£	£	£
1887-8	26,214,000	1,758,000	18,167,000	12,325,000	18,210,000	2,708,000
1888-9	26,224,594	1,629,986	15,957,738	12,999,895	17,872,986	2,718,322
1889-90	25,269,311	3,062,765	17,360,912	13,842,241	15,589,990	2,654,891
1890-1	25,207,000	3,496,104	17,560,023	14,125,358	16,040,131	2,643,447
1891-2	25,200,000	3,810,000	17,259,000	14,150,000	17,501,000	2,692,000
1892-3	25,200,000	3,106,000	17,542,000	14,302,000	17,780,000	2,616,000
1893-4	25,200,000	3,110,000	17,940,000	14,048,000	18,226,000	2,671,000
1894-5	25,000,000	1,643,000	17,900,000	17,545,000	18,915,000	2,646,000
1895-6	25,000,000	1,601,000	18,460,000	19,724,000	19,800,000	2,702,000
1896-7	25,000,000	1,643,000	18,270,000	22,170,000	20,844,000	2,716,000
1897-8	25,000,000	1,886,000	19,330,000	20,850,000	21,560,000	2,745,000
1898-9	25,000,000	2,044,000	20,000,000	24,068,000	22,025,000	2,816,000
1899-1900	23,217,000	2,735,000	43,600,000	26,000,000	22,530,000	2,800,000
1900-1	19,836,000	2,721,000	91,710,000	29,520,000	23,500,000	2,834,000
1901-2	21,686,000	2,797,000	92,542,000	31,030,000	30,500,000	2,955,000
1902-3	27,282,000	2,789,000	69,440,000	31,170,000	36,200,000	3,040,000
1903-4	27,000,000	2,781,000	36,677,000	35,476,000	26,870,000	3,085,000
1904-5	27,000,000	2,765,000	29,225,000	36,830,000	27,450,000	3,093,000
1905-6	28,000,000	2,806,000	28,850,000	33,300,000	28,430,000	3,148,000
1906-7	28,500,000	2,836,000	27,765,000	31,434,000	29,118,000	3,179,000
1907-8	29,500,000	13,127,000	27,115,000	31,141,000	30,180,000	3,222,000
1908-9	28,000,000	11,493,000	26,840,000	32,188,000	32,338,000	3,320,000
1909-10	21,758,000	11,099,000	27,236,000	35,807,000	40,010,000	3,342,000
1910-11	24,554,000	12,909,000	27,449,000	40,386,000	43,098,000	3,919,000
1911-12	24,500,000	13,039,000	27,649,000	42,858,000	46,001,000	3,951,000
1912-13	24,500,000	12,518,000	28,071,000	44,361,000	51,944,000	4,200,000

II.

STATEMENTS) 1887-8 TO 1912-13, SHEWING THE PAYMENTS REALIZED SURPLUSES AND DEFICITS.

Post Office Services. (7)	Total (as stated in separate Budget Statements). (8)	Payments to Local Taxation Accounts not included in foregoing. (9)	Total (Gross)* Expenditure. (10)	Realized Deficiency. (11)	Realized Surplus. (12)	Year.
£	£	£	£	£	£	
8,042,000	87,424,000	—	87,424,000	—	2,378,000	1887-8
8,270,351	85,673,872	1,400,000	87,073,872	—	2,798,940	1888-9
8,303,205	86,083,315	5,186,000	91,269,315	—	3,221,001	1889-90
8,660,792	87,732,855	6,974,000	94,706,855	—	1,756,257	1890-1
9,316,000	89,928,000	7,582,000	97,510,000	—	1,067,000	1891-2
9,829,000	90,375,000	7,214,000	97,589,000	—	20,000	1892-3
10,108,000	91,303,000	7,164,000	98,467,000	169,000	—	1893-4
10,270,000	93,919,000	7,014,000	100,933,000	—	765,000	1894-5
10,477,000	97,764,000	7,366,000	105,130,000	—	4,210,000	1895-6
10,834,000	101,477,000	8,249,000	109,726,000	—	2,473,000	1896-7
11,565,000	102,936,000	9,402,000	112,338,000	—	3,678,000	1897-8
12,197,000	108,150,000	9,521,000	117,671,000	—	186,000	1898-9
12,841,000	133,723,000	9,965,000	143,688,000	13,883,000	—	1899-1900
13,471,000	183,592,000	9,740,000	193,332,000	53,207,000	—	1900-1
14,012,000	195,522,000	9,714,000	205,236,000	52,524,000	—	1901-2
14,563,000	184,484,000	9,767,000	194,251,000	32,932,000	—	1902-3
15,072,000	146,961,000	9,795,000	156,756,000	5,415,000	—	1903-4
15,593,000	141,956,000	9,812,000	151,768,000	—	1,414,000	1904-5
15,978,000	140,512,000	9,901,000	150,413,000	—	3,466,000	1905-6
16,583,000	139,415,000	10,222,000	149,637,000	—	5,399,000	1906-7
17,527,000	151,812,000	—	151,812,000	—	4,726,000	1907-8
18,113,000	152,292,000	—	152,292,000	714,000	—	1908-9
18,693,000	157,945,000	—	157,945,000	26,248,000	—	1909-10
19,681,000	171,996,000	—	171,996,000	—	31,855,000	1910-11
20,547,000	178,545,000	—	178,545,000	—	6,545,000	1911-12
23,024,000	188,622,000	—	188,622,000	—	180,000	1912-13

* It is the total (gross) expenditure shewn in col. 10 upon which the percentages referring to total (gross) expenditure in the following Tables are calculated.

TABLE SHEWING NET RECEIPTS FROM CUSTOMS AND EXCISE DUTIES

Financial Year.	Spirits. (1)	Beer. (2)	Wine. (3)	Total. (4)	Liquor Licences. (5)
	£	£	£	£	£
1887-8	17,312,550	8,721,746	1,085,046	27,119,342	1,881,314
1888-9	17,175,787	8,781,585	1,210,537*	27,167,909	1,883,956
1889-90	18,541,227	9,422,623*	1,302,160	29,266,010	1,908,327
1890-1	20,172,362*	9,794,533	1,318,006	31,284,901	1,919,069
1891-2	21,121,796	9,865,691	1,291,052	32,278,539	1,934,746
1892-3	20,338,950	9,853,305	1,268,491	31,460,746	1,939,967
1893-4	20,280,637	9,949,384	1,210,142	31,440,163	1,974,277
1894-5	20,392,925*	10,509,171*	1,143,698	32,045,794	1,978,056
1895-6	20,799,431†	11,147,726	1,254,994	33,202,151	1,988,208
1896-7	21,343,412	11,336,845	1,296,181	33,976,438	2,011,753
1897-8	21,726,736	11,843,629	1,325,372	34,895,737	2,044,044
1898-9	22,408,085	12,103,373	1,399,100	35,910,558	2,129,682
1899-1900	25,436,457*	12,364,239	1,729,540*	39,530,236	2,157,962
1900-1	25,111,790*	13,963,409*	1,488,453	40,563,652	2,174,965
1901-2	23,281,286	13,741,628	1,449,687	38,472,601	2,211,784
1902-3	23,988,331*	13,729,962	1,523,856	39,242,149	2,218,224
1903-4	23,329,064	13,483,676	1,335,792	38,148,532	2,232,380
1904-5	22,132,407	13,123,679	1,185,508	36,441,594	2,229,346
1905-6	21,659,536	13,006,268	1,175,789	35,841,593	2,227,720
1906-7	21,961,467	13,095,415	1,238,172	36,295,054	2,232,098
1907-8	21,838,817	13,139,730	1,177,494	36,156,041	2,222,359
1908-9	21,417,508	12,714,397	1,120,781	35,252,686	2,176,463
1909-10	17,858,372*	12,553,571*	1,123,152	31,535,095	2,151,956*
1910-11	23,049,690	12,790,305	1,235,876	37,075,871	6,868,447
1911-12	22,727,137	13,355,843	1,088,346	37,171,326	4,670,392
1912-13	22,599,286	13,227,832	1,109,957	36,937,075	4,595,203

* There was an increase in the duty in this year. For details, see budget table and statement.

† There was a decrease in the duty in this year. For details see budget table and statement.

III.

ON SPIRITS, BEER AND WINE, LIQUOR LICENCES, AND TOBACCO.

Total Liquor Taxation. (6)	Tobacco.‡ (7)	Total excluding Liquor Licences. [Cols. 4 and 7.] (8)	Total including Liquor Licences. [Cols. 6 and 7.] (9)	Percentage (of Col. 9) to Total (Gross) Revenue. (10)	Financial Year.
£	£	£	£		
29,000,656	8,713,944 †	35,833,286	37,714,600	41·99	1887-8
29,051,865	8,858,781	36,026,690	37,910,646	42·18	1888-9
31,174,337	9,061,984	38,327,994	40,236,321	42·58	1889-90
33,203,970	9,533,888	40,818,789	42,737,858	44·30	1890-1
34,213,285	9,948,810	42,227,349	44,162,095	44·79	1891-2
33,400,713	10,124,435	41,585,181	43,525,148	44·59	1892-3
33,414,440	10,119,952	41,560,115	43,534,392	44·28	1893-4
34,023,850	10,415,139	42,460,933	44,438,989	43·69	1894-5
35,190,359	10,748,522	43,950,673	45,938,881	42·01	1895-6
35,988,191	11,018,048	44,994,486	47,006,239	41·89	1896-7
36,939,781	11,433,909	46,329,646	48,373,690	41·69	1897-8
38,040,240	10,993,727 †	46,904,285	49,033,967	41·60	1898-9
41,688,198	10,885,922	50,416,158	52,574,120	40·50	1899-1900
42,738,617	12,838,578 *	53,402,230	55,577,195	39·66	1900-1
40,684,385	10,567,705	49,040,306	51,252,090	33·56	1901-2
41,460,373	12,451,473 *	51,693,622	53,911,846	33·41	1902-3
40,380,912	12,627,059	50,775,591	53,007,971	35·02	1903-4
38,670,940	13,184,767 *	49,626,361	51,855,707	33·85	1904-5
38,069,313	13,380,878	49,222,471	51,450,191	33·43	1905-6
38,527,152	13,295,803 †	49,590,857	51,822,955	33·42	1906-7
38,378,400	13,739,378	49,895,419	52,117,778	33·29	1907-8
37,429,149	13,823,685	49,076,371	51,252,834	33·81	1908-9
33,687,051	15,680,906 *	47,216,001	49,367,957	37·48	1909-10
43,944,318	17,169,863	54,245,734	61,114,181	29·97	1910-11
41,841,718	17,342,360	54,513,686	59,184,078	31·97	1911-12
41,532,278	17,254,125	54,191,200	58,786,403	31·14	1912-13

‡ The figures given in respect of tobacco are the custom figures alone, and do not include the amounts received as excise revenue on home-grown tobacco. (The amount of excise revenue under this head in 1912-13 was nearly £24,000, as compared with the £17¼ millions customs revenue shewn above.)

TABLE IV.

TABLE SHEWING CONSUMPTION PER HEAD OF POPULATION OF BEER, SPIRITS AND TOBACCO; THE TOTAL QUANTITY PRODUCED OF BEER AND SPIRITS; THE NUMBER OF BREWERS FOR SALE LICENCES, AND OF DISTILLERIES AT WORK.

Calendar Year.	Beer.		Beer Consumption per head of Population.	Spirits.		Spirits Consumption per head of Population.	Tobacco Consumption per head of Population.
	No. of Brewers for Sale Licences Issued.*	Total Quantity.		No. of Distilleries at work.*	Total Quantity including Imports.		
		Standard Barrels.	Galls.†		Proof Galls.	Proof Galls.	Lbs.
1888	12,506	27,900,899	27·23	168	34,138,185	·93	1·48
1889	11,988	29,854,495	28·91	166	35,791,196	·96	1·51
1890	11,355	31,269,823	30·03	166	38,374,637	1·02	1·55
1891	10,659	31,702,562	30·19	167	39,143,581	1·04	1·61
1892	10,083	31,545,742	29·78	168	39,467,329	1·03	1·64
1893	9,664	31,633,635	29·59	171	37,691,473	·98	1·62
1894	9,335	31,784,406	29·45	170	37,505,792	·97	1·66
1895	9,048	32,266,041	29·62	170	39,042,834	1·00	1·66
1896	8,803	33,906,649	30·83	173	40,076,189	1·01	1·72
1897	8,285	34,799,950	31·33	182	40,959,846	1·02	1·74
1898	7,530	35,669,224	31·80	197	41,707,723	1·03	1·82
1899	6,891	36,889,529	32·57	200	44,415,148	1·09	1·88
1900	6,440	36,127,384	31·60	199	45,889,051	1·12	1·95
1901	6,118	35,562,398	30·82	193	45,210,357	1·09	1·89
1902	5,890	35,297,524	30·33	190	44,078,054	1·05	1·93
1903	5,690	35,002,065	29·83	186	41,885,583	·99	1·94
1904	5,491	34,276,226	28·96	188	40,731,860	·96	1·96
1905	5,312	33,304,775	27·90	188	39,331,928	·92	1·98
1906	5,153	33,976,052	28·21	186	39,263,578	·91	1·98
1907	4,968	33,839,868	27·86	185	39,982,512	·91	2·05
1908	4,800	32,994,675	26·93	166	38,079,011	·86	2·04
1909	4,664	32,343,840	26·16	176	31,063,423	·70	1·96
1910	4,513	32,883,314	26·36	156	29,265,998	·65	2
1911	4,337	34,309,947	27·26	152	30,687,105	·68	2·05
1912	4,165	33,976,363	26·79	152	30,526,801	·67	2·05

* The brewers for sale licences relate to years ending 30th September, as also the number of distilleries at work.

† Calculated at a standard gravity of 1055°.

TABLE V.

TABLE SHEWING THE NET RECEIPTS FROM DUTIES ON TEA, SUGAR, CORN AND OTHER CUSTOMS,* THE RATES OF DUTY ON, AND THE CONSUMPTION PER HEAD OF POPULATION OF, TEA AND SUGAR.

Financial Year.	Rate of Tea Duty.	Tea.	Rate of Sugar Duty.	Sugar including Excise Duties on Glucose Saccharin.	Corn. 3d. per cwt. 5d. per cwt. on grain products.	Other Customs.	Total	% to Total (Gross) Revenue.	Consumption per head of population.	
									Tea.	Sugar.
	per lb.	£	per cwt.	£	£	£	£		lbs.	lbs.
1887-8	6d.	4,613,312	—	—	—	932,614	5,545,926	6·17	5·02	—
1888-9	,,	4,629,901	—	—	—	964,048	5,593,949	6·22	5·03	—
1889-90	,,	4,490,506	—	—	—	907,491	5,397,997	5·71	4·99	—
1890-1	4d.	3,412,258	—	—	—	709,765	4,122,023	4·27	5·17	—
1891-2	,,	3,418,162	—	—	—	728,929	4,147,091	4·20	5·35	—
1892-3	,,	3,399,375	—	—	—	722,075	4,121,450	4·22	5·43	—
1893-4	,,	3,493,094	—	—	—	730,243	4,223,337	4·29	5·40	—
1894-5	,,	3,587,632	—	—	—	780,827	4,368,459	4·29	5·51	—
1895-6	,,	3,746,194	—	—	—	779,420	4,525,614	4·13	5·65	—
1896-7	,,	3,799,372	—	—	—	818,353	4,617,725	4·11	5·75	—
1897-8	,,	3,868,207	—	—	—	847,859	4,716,066	4·06	5·79	—
1898-9	,,	4,023,504	—	—	—	888,748	4,912,252	4·16	5·83	—
1899-1900	,,	4,628,946	—	—	—	881,653	5,510,599	4·24	5·95	—
1900-1	6d.	6,264,515	—	—	—	887,422	7,151,937	5·10	6·07	—
1901-2	,,	5,792,967	4/2	6,463,718	—	921,531	13,178,216	8·62	6·16	—
1902-3	,,	5,975,483	,,	4,567,310	2,346,796	929,752	13,819,341	8·56	6·07	—
1903-4	,,	6,559,705	,,	5,809,444	101,234	1,040,040	13,510,423	8·92	6·04	72·99
1904-5	8d.	8,271,866	,,	6,203,628	—	975,814	15,451,308	10·08	6·02	72·13
1905-6	6d.	6,814,908	,,	6,280,593	—	1,004,254	14,099,755	9·16	6·02	75·47
1906-7	5d.	5,588,288	,,	6,367,675	—	970,598	12,926,561	8·33	6·22	75·62
1907-8	,,	5,807,947	,,	6,842,320	—	993,577	13,643,844	8·71	6·26	77·78
1908-9	,,	6,046,211	1/10	3,236,680	—	1,022,116	10,305,007	6·79	6·24	78·93
1909-10	,,	5,677,790	,,	3,024,495	—	1,052,601	9,754,886	7·40	6·36	78·64
1910-11	,,	5,930,008	,,	3,026,254	—	1,062,723	10,018,985	4·91	6·39	79·61
1911-12	,,	6,159,070	,,	3,127,024	—	1,096,158	10,382,252	5·60	6·48	79·10
1912-13	,,	6,151,879	,,	3,109,122	—	1,033,513	10,294,514	5·45	6·47	—

N.B.—1. * In the above table, "Other Customs" = receipts under the heads of coffee, currants, raisins (about 85 per cent. of the whole amount) and other imported articles excluding the receipts of the Customs beer duty, which are included in the table shewing receipts in respect of duties on beer. Thus, some small proportion represents the receipts from chloroform and soap duties.

2. Sugar duty is charged at the amounts stated above on 98 per cent. polarization, and proportionately. For details see Statistical Abstract.

3. The consumption figures are for calendar years, and therefore the figure for 1887 is placed against the financial year 1887-8, as containing 9 months of the financial year. Tea figures are taken from the statistical abstract, but the sugar figures are triennial averages taken from the Annual Report of the Commissioners of Customs and Excise.

TABLE

TABLE SHEWING THE TOTAL EXCHEQUER AND NET
AND THE ALLOCATION TO

Financial Year	Total Table III. (i) Alcoholic Liquor. (ii) Liquor Licences. (iii) Tobacco.	Total Table V. (i) Tea. (ii) Sugar. (iii) Other Customs.	Other Excise Revenue.		
			Licences other than Liquor.	Miscellaneous Excise Revenue.*	Railway Passenger Duty.
	(1)	(2)	(3)	(4)	(5)
	£	£	£	£	£
1887-8	37,714,600	5,545,926	1,680,940	8,537	314,993
1888-9	37,910,646	5,593,949	1,621,669	7,824	311,506
1889-90	40,236,321	5,397,997	1,616,337	8,098	324,461
1890-1	42,737,858	4,122,023	1,671,118	8,479	324,117
1891-2	44,162,095	4,147,091	1,689,550	8,392	324,984
1892-3	43,525,148	4,121,450	1,728,566	8,569	310,325
1893-4	43,534,392	4,223,337	1,757,229	6,911	279,093
1894-5	44,438,989	4,368,459	1,772,132	7,500	260,694
1895-6	45,938,881	4,525,614	1,830,262	6,474	259,342
1896-7	47,006,239	4,617,725	1,864,903	7,541	272,183
1897-8	48,373,690	4,716,066	1,893,538	7,150	287,924
1898-9	49,033,967	4,912,252	1,916,284	7,574	308,975
1899-1900	52,574,120	5,510,599	1,931,877	7,822	328,160
1900-1	55,577,195	7,151,937	1,961,561	7,808	331,214
1901-2	51,252,090	13,178,216	2,012,955	7,419	349,863
1902-3	53,911,846	13,819,341	2,041,256	8,320	369,548
1903-4	53,007,971	13,510,423	2,050,696	8,820	358,984
1904-5	51,855,707	15,451,308	2,098,219	7,029	354,891
1905-6	51,450,191	14,099,755	2,137,093	4,806	353,424
1906-7	51,822,955	12,926,561	2,186,680	4,920	356,642
1907-8	52,117,778	13,643,844	2,190,219	9,677	345,061
1908-9	51,252,834	10,305,007	937,205§	7,708	345,821
1909-10	49,367,957	9,754,886	548,511	358,133	322,132
1910-11	61,114,181	10,018,985	1,025,981	385,193	315,166
1911-12	59,184,078	10,382,252	968,132	388,975	315,195
1912-13	58,786,403	10,294,514	1,059,503	434,882	283,929

* In the above table "Miscellaneous Excise Revenue" includes the totals given in the statistical abstract as "Other Receipts (Excise)." Since 1909-10 it has included the excise motor spirit duty (which amounted to nearly £17,000 for 1912-13), and also the revenue from patent medicines and playing cards (transferred from stamps in 1909-10).

† The figures in respect of the local taxation account do not include the amount paid out of the consolidated fund as the equivalent of the local taxation licence duties collected in Ireland in the previous year (Local Government (Ireland) Act, 1898). The net receipts

VI.

RECEIPTS FROM CUSTOMS AND EXCISE DUTIES, LOCAL TAXATION ACCOUNTS.

Coal Export (1902-7 inclusive). Motor Spirit from 1909-10.	Total Customs and Excise. Net Receipts.	Assigned out of Customs and Excise Net receipts to Local Taxation Accounts.†		Exchequer Receipts as in Budget Tables.	% Total Customs and Excise (Col. 7) to Total (Gross) Revenue.	Financial Year.
		Licences (Great Britain only).	Additional Beer and Spirit Duties.			
(6)	(7)	(8)	(9)	(10)	(11)	
£	£	£	£	£	£	
—	45,264,996	—	—	45,250,000	50·40	1887-8
—	45,445,594	—	—	45,667,000	50·56	1888-9
—	47,583,214	2,994,419	—	44,584,000	50·35	1889-90
—	48,863,595	3,359,737	1,300,470	44,268,000	50·65	1890-1
—	50,332,112	3,391,627	1,394,751	45,346,000	51·05	1891-2
—	49,694,058	3,434,253	1,357,380	45,075,000	50·91	1892-3
—	49,800,962	3,496,942	1,358,461	44,907,000	50·66	1893-4
—	50,847,774	3,514,102	1,319,098	46,165,000	49·99	1894-5
—	52,560,523	3,579,880	1,391,475	47,556,000	48·07	1895-6
—	53,768,591	3,635,790	1,431,574	48,714,000	47·92	1896-7
—	55,278,368	3,694,365	1,468,611	50,098,000	47·64	1897-8
—	56,179,052	3,799,051	1,510,837	50,050,000	47·66	1898-9
—	60,352,578	3,840,400	1,660,002	55,900,000	46·49	1899-1900
Coal Export	65,029,715	3,886,269	1,585,898	59,362,000	46·40	1900-1
1,311,706	68,112,249	3,972,044	1,495,375	62,593,000	44·60	1901-2
1,991,767	72,142,078	4,006,328	1,527,008	66,533,000	44·72	1902-3
2,051,653	70,988,547	4,029,764	1,490,624	65,400,000	46·90	1903-4
2,052,774	71,819,928	4,074,377	1,426,504	66,480,000	46·88	1904-5
2,183,973	70,229,242	4,111,612	1,401,486	64,705,000	45·63	1905-6
1,494,777	68,792,535	4,162,888	1,419,064	63,280,000	44·37	1906-7
—	68,306,579			68,210,000	43·63	1907-8
Motor Spirit	62,848,575	(*See note* ‡ *below.*)		62,850,000	41·46	1908-9
312,881	60,664,500			61,380,000	46·06	1909-10
427,143	73,286,649			73,160,000	35·95	1910-11
607,743	71,846,375			72,029,000	38·81	1911-12
721,951	71,581,182			71,485,000	37·91	1912-13

assigned (cols. 8 and 9) are not the same as the payments to the local taxation accounts. For these see Table XXIV.

‡ In and after 1907-8 all duties have been paid, in the first instance, into the Exchequer and the corresponding payments to the local taxation accounts made out of the consolidated fund (Finance Act, 1907).

§ The Finance Act, 1908, provided for the transfer of the collection of certain local taxation licences from the central government to county councils.

TABLE VII.

TABLE SHEWING THE TAXABLE INCOME, RATES OF INCOME-TAX, AND PRODUCE PER PENNY OF THE TAX FROM 1887-8 TO 1911-12.*

Year Ending 5th April.	Income Taxable.	Rates of Income Tax.		Produce of each penny of the Tax.
		Rate in the £.	Abatements.	
	£			£
1887-8	507,472,000	7d.		1,992,690
1888-9	521,628,000	6d.		2,045,587
1889-90	545,159,000	6d.		2,141,558
1890-1	564,004,000	6d.	Annual Income exceeding £150 but not exceeding £400, Abatement £150.	2,215,856
1891-2	570,609,000	6d.		2,238,130
1892-3	572,284,000	6d.		2,239,856
1893-4	562,337,000	7d.		2,191,000
1894-5	551,390,624	8d.	Annual Income exceeding £160, but not exceeding £400, Abatement £160.	1,982,000
1895-6	566,778,846	8d.		2,033,162
1896-7	585,389,360	8d.	Annual Income exceeding £400, but not exceeding £500, Abatement £100.	2,098,602
1897-8	610,291,490	8d.		2,188,380
1898-9	639,587,127	8d.		2,284,289
1899-1900	661,629,530	8d.	Annual Income exceeding £160, but not exceeding £400, Abatement £160.	2,353,619
1900-1	694,668,311	1/-		2,475,442
1901-2	713,881,385	1/2	Annual Income exceeding £400, but not exceeding £500, Abatement £150.	2,531,462
1902-3	719,509,176	1/3		2,535,862
1903-4	731,571,153	11d.	Annual Income exceeding £500, but not exceeding £600, Abatement £120.	2,562,551
1904-5	737,886,203	1/-		2,580,533
1905-6	753,417,207	1/-	Annual Income exceeding £600, but not exceeding £700, Abatement £70.	2,633,436
1906-7	763,760,484	1/-		2,666,867
1907-8	799,313,000	1/-	Abatements as from 1898-9 to 1906-7, and in addition any individual whose total income did not exceed £2000, was, subject to the provisions of the Finance Act, 1907, entitled to such relief as would reduce the rate on his earned income to 9d. in the £. Differentiation thus introduced.	2,698,000
1908-9	824,057,641	1/-		2,784,063
1909-10	822,225,797	1/2	In addition to abatements and differentiation as in 1907-8 and 1908-9, any individual whose total income exceeded £2000 but did not exceed £3000, was, subject to the provisions of the Finance Acts, 1907, and (1909-10) 1910, entitled to such relief as would reduce the rate on his earned income to 1s. in the £. Any person, whose total income exceeded £160 but did not exceed £500, who had a child or children under the age of 16, living, was entitled to relief from the Tax on £10 for every such child. Super-tax, see Tables VII. A and B, also introduced in 1909.	2,691,422
1910-11	838,309,355	1/2		2,738,912
1911-12	866,453,803	1/2		2,830,830

* For total yield of the tax see Table XII., and for statistics in respect of the super-tax see Tables VII. A. and VII. B.

1887-8 to 1895-6. Prior to the year 1896-7 the tax was charged under Schedule B upon the whole annual value of lands, but at a fraction (usually something less than one-half) of the rate chargeable under other schedules. From 1896-7 onwards the tax under Schedule B has been at the same rate as that under the other schedules, but the charge has been upon only one-third of the annual value. The figures for 1887-8 to 1895-6 have, for the purposes of comparison, been amended by the omission of two-thirds of the annual value of lands charged under Schedule B.

1887-8 to 1893-4. Prior to the year 1894-5 no allowance for repairs was made under Schedule A. For 1894-5 and later years allowances of one-eighth of the annual value of lands, and not exceeding one-sixth of the annual value of houses, etc., were made. The figures for the years 1887-8 to 1893-4 have been amended for purposes of comparison by the omission of a corresponding amount of the gross annual value for repairs.

1907-8. Official estimates. The statistics originally compiled were incomplete owing to a necessary change in practice following legislation.

1909-10 and 1910-11. Owing to the delay in passing the Finance Bill for the year 1909-10, the figures of income-tax assessments are somewhat lower for 1909-10, and somewhat higher for 1910-11 than they would have been in normal circumstances.

Under the 1909-10 Finance Act further relief was granted in respect of repairs, maintenance, etc., of lands and houses not exceeding £8 annual value.

The new provision enables the owner, in cases where the actual expenses to him under the heads given above have exceeded the amounts allowed under the Act of 1894, to claim a *further* allowance, subject to a limit of one-eighth part of the annual value in the case of lands, and one-twelfth in the case of the small houses specified. The maximum of the combined allowances is thus 25 per cent. of the assessed annual value in the case either of lands or houses—where the latter are within the £8 limit.

No. of claims and amount repaid under this section of the Act is shewn below:

	Claims.	Amount Repaid.
1910-11	250	£4,800
1911-12	2,250	48,500
1912-13	1,800	65,000

TABLE VII. A. SHEWING THE NET RECEIPTS FROM THE SUPER-TAX, THE NUMBER OF PERSONS CHARGEABLE, AND THEIR TOTAL INCOME.

Year.	Number of Persons Chargeable.	Total Income.†	Net Receipts from the Super-tax.‡
		£	£
1909-10	11,380	140,120,492	Nil.
1910-11	11,500*	141,300,000*	2,891,345
1911-12	11,650*	145,950,000*	3,018,388
1912-13	11,800*	149,400,000*	3,599,706

* Official estimates.
† Calculated before deducting abatements of £3000 per individual.
‡ Super-tax.—Where the income of an individual from all sources exceeds £5000 Super-tax is chargeable at the rate of 6d. in the £ on the amount by which the income exceeds £3000.

TABLE VII. B. YEAR 1911-12. CLASSIFICATION OF THE INCOMES AND NUMBER OF PERSONS ASSESSED TO THE SUPER-TAX.

Class.		Total Incomes assessed.	Number of Persons.
		£	
Not exceeding £10,000		50,850,830	7,411
Exceeding	Not exceeding		
£10,000	£15,000	24,383,880	2,029
£15,000	£20,000	13,550,046	787
£20,000	£25,000	9,697,248	438
£25,000	£35,000	11,099,384	382
£35,000	£45,000	7,303,011	186
£45,000	£55,000	5,269,881	107
£55,000	£65,000	3,353,446	56
£65,000	£75,000	2,575,501	37
£75,000	£100,000	4,733,982	55
£100,000		12,176,735	66
Total		144,993,944	11,554

Above Table is extracted from the latest Report of the Commissioners of Inland Revenue.

TABLE VIII.

ESTATE AND PROBATE DUTY.

TABLE SHEWING THE NET CAPITAL VALUES OF ESTATES; THE NUMBERS OF PERSONS LIABLE TO ESTATE AND PROBATE DUTIES; AND THE AVERAGE VALUE OF THE ESTATES FOR EACH YEAR.

Year.	Net Values of Estates.			Numbers of Persons.	Average Values of Estates.	Remarks.
	Personalty.	Realty.	Total.			
	£	£	£		£	
1894-5	150,076,000	9,263,000	159,339,000	50,853	3,133	Before 1894 Realty was not chargeable to Probate Duty.
1895-6	189,518,000	29,971,000	219,489,000	57,624	3,809	
1896-7	180,617,000	39,704,000	220,321,000	54,503	4,042	
1897-8	189,953,184	61,384,751	251,337,935	57,630	4,361	
1898-9	193,528,308	61,040,520	254,568,828	59,752	4,260	
1899-1900	222,673,004	73,427,761	296,100,765	67,338	4,397	The rates of Duty are shown in Column 3 of Table XI., and did not vary in these years.
1900-1	198,084,432	69,363,813	267,448,245	64,423	4,151	
1901-2	204,124,591	87,934,294	292,058,885*	63,140	4,626	
1902-3	202,948,711	69,860,596	272,809,307	63,929	4,267	
1903-4	200,220,094	66,165,022	266,385,116	63,457	4,198	
1904-5	199,616,534	67,629,662	267,246,196	65,219	4,098	
1905-6	208,314,821	66,555,572	274,870,393	64,228	4,280	
1906-7	231,416,122	69,211,575	300,627,697	67,220	4,472	
1907-8	215,988,639	67,960,451	283,949,090	68,670	4,135	The rates of Duty for these years are shown in Column 4 of Table XI.
1908-9	211,597,952	61,018,070	272,616,022	68,465	3,982	
1909-10	225,196,086	60,241,288	285,437,374	70,030	4,076	The rates of Duty are shown in Column 5 of Table XI.
1910-11	216,841,099	57,211,628	274,052,727	68,418	4,006	
1911-12	221,086,704	58,675,684	279,762,388	70,855	3,948	
1912-13	221,248,205	59,297,727	280,545,932	71,298	3,935	

* (Due to several large estates paying the duty. £18 millions ground rents.)

For note on this Table and Table IX. see pages 440 and 441.

TABLE IX.

TABLE SHEWING FOR EACH COMPOSITE YEAR FROM 1894-5 TO 1912-13 THE AVERAGE NET CAPITAL VALUE OF THE ESTATES DISCLOSED, THE AVERAGE NUMBER OF PERSONS, AND THE AVERAGE VALUE OF THE ESTATES.

(The figures for each composite year represent averages of seven successive years.)

Composite Year.	Average net Capital Value of Estates liable to Duty.	Average Number of Persons liable to Duty.	Average Value of the Estates for the Composite Year.
	£		£
1894-5 to 1900-1	238,370,000	58,875	4,049
1895-6 „ 1901-2	257,330,000	60,630	4,244
1896-7 „ 1902-3	264,950,000	61,531	4,306
1897-8 „ 1903-4	271,530,000	62,810	4,323
1898-9 „ 1904-5	273,800,000	63,894	4,285
1899-0 „ 1905-6	276,700,000	64,533	4,288
1900-1 „ 1906-7	277,350,000	64,517	4,299
1901-2 „ 1907-8	279,710,000	65,123	4,295
1902-3 „ 1908-9	276,930,000	65,884	4,203
1903-4 „ 1909-10	278,730,000	66,755	4,175
1904-5 „ 1910-11	279,830,000	67,464	4,148
1905-6 „ 1911-12	281,620,000	68,269	4,125
1906-7 „ 1912-13	282,430,000	69,279	4,077

TABLE X.

CLASSIFICATION OF THE NUMBERS AND AGGREGATE AMOUNTS OF ESTATES ACCORDING TO CATEGORIES OF VALUE.

(The figures are the arithmetical means of those relating to the years 1911 and 1912.)

Class.			Average for 1911 and 1912.		Percentage of Estates in each class.	Percentage of Capital in each class.
			No. of Estates.	Net Capital Value.		
				£		
	Not exceeding £500		36,058*	10,438,831	52·25	3·79
Exceeding	£500 but not exceeding	1,000	11,135	9,235,000	16·14	3·35
,,	1,000 ,,	5,000	14,677	39,044,771	21·27	14·17
,,	5,000 ,,	10,000	3,144	25,796,870	4·56	9·36
,,	10,000 ,,	25,000	2,417	41,302,746	3·50	15·00
,,	25,000 ,,	50,000	864	32,539,136	1·25	11·81
,,	50,000 ,,	100,000	414	30,369,485	·60	11·02
,,	100,000 ,,	250,000	220	33,262,640	·32	12·07
,,	250,000 ,,	500,000	48	18,023,749	·07	6·54
,,	500,000 ,,	1,000,000	20	15,468,516	·03	5·61
,,	1,000,000		9	20,065,312	·01	7·28
	Total - -		69,006	275,547,056	100·00	100·00

* Of this number nearly 30,000 are of the " small estates " class, persons of the superior artisan or lower middle class for the most part, who elect to commute all death duties by the payment of a fixed sum of 30s. or 50s. when the gross value of the property (exclusive of anything of which the deceased was merely life tenant) does not exceed £300 and £500 respectively.

Only two years have been averaged in this table; but the percentages may be taken as generally applicable, since they agree very closely with those given in a similar table, based on the arithmetical revenue of the four years, 1904-1907, published by Mr. H. G. Strutt in the *Journal of the Royal Statistical Society* for June, 1910, p. 635.

TABLE XI.

RATES OF ESTATE DUTY.

Where the Net Principal Value of the Estate		Rate of Duty per cent.			
Exceeds	And does not exceed	Where the death occurred after 1st August, 1894, and before 19th April, 1907.	Where the death occurred after 18th April, 1907, and before 30th April, 1909.		Where the death occurred after 29th April, 1909.
(1)	(2)	(3)	(4)		(5)
£	£	£	£		£
100	500	1	1		1
500	1,000	2	2		2
1,000	5,000	3	3		3
5,000	10,000	3	3		4
10,000	20,000	4	4		5
20,000	25,000	4	4		6
25,000	40,000	4½	4½		6
40,000	50,000	4½	4½		7
50,000	70,000	5	5		7
70,000	75,000	5	5		8
75,000	100,000	5½	5½		8
100,000	150,000	6	6		9
150,000	200,000	6½	7		10
200,000	250,000	6½	7		11
250,000	400,000	7	8		11
400,000	500,000	7	8		12
500,000	600,000	7½	9		12
600,000	750,000	7½	9		13
750,000	800,000	7½	10		13
800,000	1,000,000	7½	10		14
			On one million.	On the remainder.	
1,000,000	1,500,000	8	10	11	15
1,500,000	2,000,000	8	10	12	15
2,000,000	2,500,000	8	10	13	15
2,500,000	3,000,000	8	10	14	15
3,000,000	—	8	10	15	15

Settled property is subject to a further estate duty, called settlement estate duty, at the undermentioned rates :

Where the death occurred after 1st August, 1894, and before 30th April, 1909 1 per cent.
Where the death occurred after 29th April, 1909 - - - - - 2 „

Small estates, where the gross value does not exceed £300 a fixed duty of 30s.
Small estates, where the gross value exceeds £300 and does not exceed £500, a fixed duty of 50s.
} Inclusive of all other death duties.

Estates not exceeding £100 net are exempt.

TABLE XII.

TABLE SHEWING RECEIPTS FROM DEATH DUTIES AND INCOME-TAX (EXCHEQUER RECEIPTS.)

Year.	Death Duties (including payments to Local Taxation Accounts).*	Income Tax and, from 1910, Super Tax.	Total.	Percentage to Total (Gross) Revenue.
	£	£	£	
1887-8	8,284,204	14,440,000	22,724,204	25·30
1888-9	8,009,140	12,700,000	20,709,140	—
1889-90	9,148,939	12,770,000	21,918,939	—
1890-1	9,898,310	13,250,000	23,148,310	—
1891-2	11,093,035	13,810,000	24,903,035	25·26
1892-3	10,785,878	13,470,000	24,255,878	—
1893-4	9,979,691	15,200,000	25,179,691	—
1894-5	10,894,385	15,600,000	26,494,385	—
1895-6	14,088,608	16,100,000	30,188,608	—
1896-7	13,878,274	16,650,000	30,528,274	—
1897-8	15,327,882	17,250,000	32,577,882	—
1898-9	15,632,600	18,000,000	33,632,600	28·53
1899-1900	18,520,771	18,750,000	37,270,771	—
1900-1	17,195,016	26,920,000	44,115,016	—
1901-2	18,509,501	34,800,000	53,309,501	—
1902-3	18,085,669	38,800,000	56,885,669	—
1903-4	17,195,581	30,800,000	47,995,581	—
1904-5	16,668,959	31,250,000	47,918,959	—
1905-6	17,328,000	31,350,000	48,678,000	31·63
1906-7	19,084,000	31,600,000	50,684,000	—
1907-8	19,070,000	32,380,000	51,450,000	—
1908-9	18,370,000	33,930,000	52,300.000	—
1909-10	21,766,000	13,295,000	35,061,000	—
1910-11	25,452,000	61,946,000	87,398,000	—
1911-12	25,392,000	44,804,000	70,196,000	—
1912-13	25,248,000	44,806,000	70,054,000	37·10

	Percentages of Increase.				
	1892-3 over 1887-8.	1898-9 over 1892-3.	1905-6 over 1898-9.	1912-13 over 1905-6.	1912-13 over 1887-8.
Death Duties - -	30·20	44·94	10·85	45·71	204·77
Income-Tax - -	*Decrease 6·72*	33·63	74·17	42·92	210·29
Both combined -	6·74	38·66	44·73	43·91	208·28

* Down to and including 1896-7 the figures given in respect of the death duties are those of net receipts.

TABLE XIII.

STAMPS: NET RECEIPTS (SHOWING THE DETAILS OF THE CHIEF HEADS OF REVENUE).

	1887-8	1892-3	1897-8	1902-3	1907-8	1912-13
	£	£	£	£	£	£
General Stamps—						
Deeds and other Instruments not included under the following heads -	2,385,602	2,412,894	4,121,890	3,893,008	3,141,567	4,424,167
Bonds to bearer and Substd. Securities	—	225,166	175,482	210,229	402,324	880,768
Companies Capital Duty - -	—	124,970	353,959	624,759	482,557	701,791
Contract Notes -	—	51,714	135,853	212,715	137,243	393,922
Bills of Exchange -	661,431	665,030	660,818	699,709	866,556	967,821
Receipts, Drafts, and other 1d. Stamps	992,325	1,148,396	1,350,691	1,528,463	1,721,543	1,922,165
Patent Medicines and Playing Cards -	207,766	240,004	283,807	355,563	360,023	—*
Miscellaneous - -	525,622	532,361	515,745	694,157	818,771	784,841
Total -	4,772,746	5,400,535	7,598,245	8,218,603	7,930,584	10,075,475

* Transferred to the head of excise. See Table VI. col. 4 and Note *.

TABLE XIV.

TABLE SHEWING THE PROPORTION BETWEEN DIRECT AND INDIRECT TAXATION ACCORDING TO TREASURY CLASSIFICATION.

Year.	Indirect.	Direct.	Year.	Indirect.	Direct.
	%	%		%	%
1887-8	54·7	45·3	1900-1	50·6	49·4
1888-9	55·9	44·1	1901-2	47·5	52·5
1889-90	55·6	44·4	1902-3	47·6	52·4
1890-1	55·9	44·1	1903-4	50·7	49·3
1891-2	55·7	44·3	1904-5	50·5	49·5
1892-3	55·9	44·1	1905-6	49·7	50·3
1893-4	55·3	44·7	1906-7	48·6	51·4
1894-5	54·6	45·4	1907-8	48·9	51·1
1895-6	52·4	47·6	1908-9	47·4	52·6
1896-7	52·6	47·4	1909-10	43·6	56·4
1897-8	52·1	47·9	1910-11		
1898-9	51·8	48·2	1911-12	42·7	57·3
1899-1900	51·6	48·4	1912-13	42·4	57·6

NOTE.—Indirect: all customs duties and all excise duties (excepting railway passenger duty and licences).

Direct: excise licences and railway passenger duty, estate, etc., duties, stamps, land tax, house duty, property and income-tax, and land value duties.

Excluded: The coal export duty (1901-2 to 1906-7) has been excluded from the above calculations. For net receipts from this duty, see Table VI. col. 6.

TABLE SHEWING THE NOMINAL AMOUNT OF THE NATIONAL DEBT UNDER YEAR, THE AMOUNT CREATED, AND THE AMOUNT

Financial Year.	Funded Debt.	Terminable Annuities.	Unfunded Debt.	Total of "Dead Weight Debt" (Cols. 1, 2, and 3) at the Commencement of each Financial Year.	Per Head of Population.	Other Capital Liabilities at the Commencement of each Financial Year.
	(1)	(2)	(3)	(4)	(5)	(6)
	£	£	£	£	£	£
1887-8	637,637,640	80,394,390	17,517,900	735,549,930	20·09	603,137
1888-9	609,740,743	76,926,771	17,385,100	704,052,614	19·08	582,338
1889-90	607,057,811	73,891,623	16,093,322	697,042,756	18·74	561,539
1890-1	585,959,852	70,336,149	32,252,305	688,548,306	18·36	540,740
1891-2	579,472,082	66,550,579	36,140,079	682,162,740	18·04	1,317,719
1892-3	577,944,665	62,550,043	35,312,994	675,807,702	17·72	1,261,360
1893-4	589,533,082	59,056,324	20,748,270	669,337,676	17·38	1,782,261
1894-5	587,631,096	55,717,505	21,446,300	664,794,901	17·10	2,495,814
1895-6	586,015,919	52,492,709	17,400,300	655,908,928	16·72	3,092,624
1896-7	589,146,878	49,183,748	9,975,800	648,306,426	16·37	3,979,940
1897-8	587,698,732	45,291,694	8,133,000	641,123,426	16·03	4,048,099
1898-9	585,787,624	41,150,011	8,133,000	635,070,635	15·72	3,746,872
1899-1900	583,186,305	36,702,267	8,133,000	628,021,572	15·40	7,372,162
1900-1	552,606,898	60,190,755	16,133,000	628,930,653	15·28	9,989,278
1901-2	551,182,153	60,154,800	78,133,000	689,469,953	16·59	14,464,396
1902-3	609,587,248	60,295,402	75,133,000	745,015,650	17·78	20,200,003
1903-4	640,085,726	55,560,036	75,133,000	770,778,762	18·24	27,570,428
1904-5	637,633,319	51,363,458	73,633,000	762,629,777	17·89	31,868,323
1905-6	635,682,863	47,756,246	71,633,000	755,072,109	17·57	41,664,382
1906-7	634,047,429	43,459,548	65,713,000	743,219,977	17·14	45,770,210
1907-8	631,928,334	40,864,211	56,713,000	729,505,545	16·68	49,659,159
1908-9	625,608,890	39,407,575	46,459,400	711,475,865	16·12	50,850,186
1909-10	621,838,957	38,009,337	42,839,603	702,687,897	15·78	51,433,412
1910-11	614,868,547	35,876,861	62,500,000	713,245,408	15·88	49,218,217
1911-12	610,315,194	34,417,265	40,500,000	685,232,459	15·13	47,840,151
1912-13	602,200,092	33,044,389	39,500,000	674,744,481	14·77	50,061,947
1913-14	593,453,857	31,519,908	36,500,000	661,473,765	14·37	54,814,656

* Excludes £26,558,959 cancelled under the National Debt and Local Loans Act, 1887, local loans stock being created in its place.

XV.

CAPITAL ACCOUNT.

THE PRINCIPAL HEADS, AT THE COMMENCEMENT OF EACH FINANCIAL REDEEMED DURING EACH YEAR (1887-8 TO 1912-13).

Total Debt at the Commencement of each Financial Year.	Per Head of Population.	Gross Amount of Debt redeemed during the Year.		Debt created during the Year.		Net Result.
		Dead Weight Debt.	Other Capital Liabilities.	Dead Weight Debt.	Other Capital Liabilities.	
(7)	(8)	(9)	(10)	(11)	(12)	(13)
£	£	£	£	£	£	£
736,153,067	20·11	4,938,357	20,799	—	—	− 4,959,156*
704,634,952	19·10	8,009,858	20,799	1,000,000	—	− 7,030,657
697,604,295	18·76	8,584,965	20,799	90,515	—	− 8,515,249
689,089,046	18·38	9,573,566	73,021	3,188,000	850,000	− 5,608,587
683,480,459	18·08	8,746,759	56,359	2,391,721	—	− 6,411,397
677,069,062	17·75	7,905,026	100,099	1,435,000	621,000	− 5,949,125
671,119,937	17·43	5,437,775	126,447	895,000	840,000	− 3,829,222
667,290,715	17·17	8,885,973	163,190	—	760,000	− 8,289,163
659,001,552	16·80	7,602,502	201,234	—	1,088,550	− 6,715,186
652,286,366	16·47	7,183,000	625,955	—	694,114	− 7,114,841
645,171,525	16·13	6,052,791	301,227	—	—	− 6,354,018
638,817,507	15·81	7,049,063	307,046	—	3,932,336	− 3,423,773
635,393,734	15·58	7,090,919	368,501	8,000,000	2,985,617	+ 3,526,197
638,919,931	15·52	1,460,700	439,469	62,000,000	4,914,587	+65 014,418
703,934,349	16·94	4,454,303	548,493	60,000,000	6,284,100	+61,281,304
765,215,653	18·26	6,236,888	769,975	32,000,000	8,140,400	+33,133,537
798,349,190	18·89	10,148,985	1,007,105	2,000,000	5,305,000	− 3,851,090
794,498,100	18·64	8,315,100	1,203,941	757,432	11,000,000	+ 2,238,391
796,736,491	18·53	11,852,132	1,458,172	—	5,564,000	− 7,746,304
788,990,187	18 19	13,714,432	1,666,051	—	5,555,000	− 9,825,483
779,164,704	17·81	18,029,680	1,802,973	—	2,994,000	−16,838,653
762,326,051	17·27	8,787,968	2,052,929	—	2,636,155	− 8,204,742
754,121,309	16·94	10,442,489	3,495,195	21,000,000†	1,280,000	+ 8,342,316
762,463,625	16·97	28,012,949†	2,413,066	—	1,035,000	−29,391,015†
733,072,610	16·18	10,487,978	2,230,204	—	4,452,000	− 8,266,182
724,806,428	15·87	13,270,716	3,735,291	—	8,488,000	− 8,518,007
716,288,421	15·56	—	—	—	—	—

† The high figures in cols. 9 and 13 for the year 1910-11 include the repayment of £21,000,000 debt, the creation of which in 1909-10 was rendered necessary by the delay in passing the budget proposals of that year into law.

TABLE XVI.—NATIONAL

TABLE SHEWING THE AMOUNT OF MONEY DEVOTED IN EACH AND THE REPAYMENT OF

Financial Year.	Amount of Debt Provision issued in the Year in respect of Dead Weight Debt.				Amount Applicable out of Old Sinking Fund of Previous Year to Reduction of Debt.	Miscellaneous Receipts and Sums taken out of Exchequer Balance applied to Reduction of Debt in the Year.
	Interest and Management.	Percentage of Total Revenue.	Repayment of Principal.	Percentage of Total (Gross) Revenue.		
	(1)	(2)	(3)	(4)	(5)	(6)
	£		£		£	£
1887-8	21,164,785	23·5	5,049,126	5·6	—	302,096
1888-9	21,060,987	23·4	5,163,607	5·7	† 1,914,788	359,271
1889-90	19,955,162	20·1	5,271,598	5·5	† 788,982	2,191,926
1890-1	19,262,432	19·9	5,974,250	6·1	† 2,221,002	1,430,432
1891-2	18,791,380	19·0	6,464,888	6·5	1,756,257	315,716
1892-3	18,735,295	19·1	6,531,844	6·6	1,067,013	265,190
1893-4	18,501,623	18·8	6,772,373	6·8	† —	284,446
1894-5	18,448,217	18·1	6,551,783	6·4	—	1,060,477
1895-6	17,861,174	16·3	7,138,826	6·5	765,342	239,625
1896-7	17,779,057	15·8	7,220,943	6·4	† —	318,984
1897-8	17,639,708	15·2	7,360,292	6·3	† —	399,117
1898-9	17,423,399	14·7	7,576,601	6·4	† —	506,526
1899-1900	17,414,920	13·4	5,801,737	4·4	† —	227,324
1900-1	18,686,729	13·3	1,148,760	0·8	—	244,623
1901-2	20,583,318	13·4	1,102,214	0·7	—	3,314,226
1902-3	21,531,867	13·3	5,750,191	3·5	—	258,722
1903-4	20,490,068	13·5	6,509,932	4·3	—	3,398,183
1904-5	19,558,980	12·7	7,441,020	4·8	—	2,279,823
1905-6	19,235,364	12·5	8,789,663	5·7	† —	1,476,397
1906-7	18,879,385	12·1	9,620,615	6·2	3,465,620	753,039
1907-8	18,590,734	11·8	10,909,266	6·9	† 5,298,822	452,214
1908-9	18,011,046	11·8	9,988,954	6·5	† 2,625,596	591,518
1909-10	18,226,242	13·8	3,531,419	2·6	—	565,845
1910-11	17,914,356	8·7	6,639,648	3·2	—	642,652
1911-12	17,454,982	9·4	7,045,018	3·8	† 2,356,766	414,618
1912-13	17,220,767	9·1	7,279,233	3·9	5,000,000	444,787

* From the commencement of the financial year 1903-4, the rate of interest on consols was reduced from 2¾% to 2½ %.

† In these years the whole or part of the old sinking fund was applied otherwise than in the customary reduction of the debt. For details see below :—

1888-9. In addition to amount shewn above, £463,821 of the old sinking fund, *i.e.* the surplus revenue of the previous year, was applied to making good the Friendly Societies deficiency.

1889-90. In addition, £2,000,000 applied to the conversion scheme.

1890-91. ,, £1,000,000 ,, payment of deficiency advances.

1893-4. £20,012, the amount of the old sinking fund, applied to the payment of deficiency advances.

1896-7. The old sinking fund, £4,209,472, was made applicable to naval works. In this way £375,000 (see col. 10) was applied in reduction of other capital liabilities.

1897-8. Old sinking fund devoted to expenditure on military works (£2,473,216).

1898-9. Old sinking fund applied as follows : £1,128,010 to payment of deficiency advances ; £2,550,000 to public buildings.

1899-1900. Old sinking fund applied to repayment of temporary advances.

1905-6. Old sinking fund applied to the repayment of temporary advances.

DEBT CASH ACCOUNT.

FINANCIAL YEAR (1887-8 TO 1912-13) IN THE PAYMENT OF INTEREST THE NATIONAL DEBT.

Amount of Provision issued in the Year for Other Capital Liabilities.		Miscellaneous Receipts applied in Reduction of Other Capital Liabilities in the Year.	Total Amount applicable to Reduction of Liabilities in the Year. (Columns 3, 5, 6, 8, and 9.)	Total Amount of Money devoted to the Debt Service.	Percentage of Total Cost of Debt (Col. 11) to Total (Gross) Revenue.‡	Average Monthly Price of Consols.
Interest.	Repayment of Principal.					
(7)	(8)	(9)	(10)	(11)	(12)	(13)
£	£	£	£	£		
29,719	20,799	—	5,372,021	26,566,525	29·5	102 1/16
28,642	20,799	—	7,458,465	28,548,094	31·7	100
27,612	20,799	—	8,273,305	28,256,079	29·9	97 1/16
38,669	73,021	—	9,698,705	28,999,806	30·0	96 7/16
17,532	40,653	15,706	8,593,220	27,402,132	27·8	95 7/16
46,188	62,937	37,162	7,964,146	26,745,629	27·4	97 3/8
97,181	88,542	37,905	7,183,266	25,782,070	26·2	98 1/16
61,667	135,187	28,003	7,775,450	26,285,334	25·8	102 3/8
82,544	171,745	29,489	8,395,027	26,338,745	24·0	107 1/8
100,933	221,040	† 404,915	8,165,882	26,045,872	23·2	111 1/16
112,437	270,269	30,958	8,060,636	25,812,781	22·2	112 7/16
107,551	275,502	31,544	8,390,173	25,921,123	21·9	110 5/8
126,833	335,469	33,032	6,397,562	23,939,315	18·4	104 5/16
268,711	414,625	24,844	1,832,852	20,788,292	14·8	98 5/8
436,450	548,493	—	4,964,933	25,984,701	17·0	93 5/8
619,500	768,408	1,567	6,778,888	28,930,255	17·9	93 3/4
780,300	1,007,105	—	10,915,220	32,185,588	21·2	* 89 7/16
883,322	1,187,709	16,232	10,924,784	31,367,086	20·4	89
1,247,700	1,671,643	13,158	11,950,861	32,433,925	21·0	89 1/16
1,325,234	1,879,128	13,553	15,731,955	35,936,574	23·1	87 7/16
1,426,925	2,015,644	13,960	18,689,906	38,707,565	24·7	84 1/16
1,415,326	2,135,181	144,378	15,485,627	34,911,999	23·0	85 7/8
1,450,765	2,352,451	242,075	6,691,790	26,368,797	20·0	83 3/8
1,407,513	2,496,974	145,254	9,924,528	29,246,397	14·3	80 1/16
1,374,033	2,313,654	145,712	12,275,768	31,104,783	16·8	78 1/16
1,687,466	3,080,324	146,183	15,950,527	34,858,760	18·5	75 9/32

1907-8. £100,000 of the old sinking fund applied in aid of the cash balance of the Supreme Court of Judicature Suitors' Funds.

1908-9.	Total amount of old sinking fund	£4,725,596
	For defraying expenses incurred in the erection of public buildings	600,000
	Payment of deficiency advances	1,500,000
	Reduction of debt	2,625,596
	Total	£4,725,596
1911-12.	Total amount of old sinking fund	£5,606,766
	To Development fund	1,500,000
	,, Sanatoria	1,500,000
	,, East Africa Protectorates (Loan)	250,000
	,, Reduction of debt	2,356,766
		£5,606,766

‡ A caution must be addressed respecting the percentage in col. 12 of the above table. The total cost of the debt as given in col. 11 contains the old sinking fund (for the years indicated), which is no part of the " Total (Gross) Revenue " for the year in which it is devoted to the reduction of the debt.

TABLE SHEWING THE INDEBTEDNESS OF LOCAL
FINANCIAL YEAR,

Year.	England and Wales.		Scotland. (Outstanding Loans and Annuities).*	Ireland.‡
	Baths, Cemeteries, Electricity Supply, Gasworks, Harbours, Piers, Docks, Canals and Quays, Light Railways, Markets, Tramways and Waterworks.†	Other Purposes.		
	£		£	£
1887-8	192,190,083		28,966,143	6,248,781
1888-9	195,109,807		30,185,608	6,506,843
1889-90	198,107,174		30,477,216	6,582,316
1890-1	200,622,450		30,705,820	6,553,068
1891-2	206,924,180		32,571,345	6,976,341
1892-3	214,686,318		34,440,477	9,008,846
1893-4	223,391,476		36,806,044	9,512,056
1894-5	234,477,885		37,306,446	9,842,960
1895-6	108,864,889	133,460,994	38,436,012	10,394,768
1896-7	112,508,428	138,715,986	40,821,516	10,848,265
1897-8	117,699,295	143,418,323	42,104,614	11,343,581
1898-9	124,480,131	150,847,243	44,519,962	11,325,321
1899-1900	135,322,296	157,624,720	47,845,074	11,493,914
1900-1	145,846,906	169,914,474	51,287,361	13,534,973
1901-2	159,761,278	182,742,200	54,315,192	14,440,595
1902-3	175,395,698	194,315,761	56,472,520	15,398,681
1903-4	187,100,454	205,927,525	59,345,912	16,008,311
1904-5	246,793 385†	216,091,207	61,338,187	16,917,091
1905-6	256,330,053†	223,183,028	63,114,297	18,584,751
1906-7	262,549,564†	227,392,824	63,283,130	19,279,956
1907-8	268,586,687†	229,506,109	65,157,236	19,750,529
1908-9	274,169,283†	231,855,527	65,728,827	20,781,466
1909-10	301,722,003†	234,280,526	65,827,182	22,066,834
1910-11	303,805,215	236,406,265	66,032,741	23,390,939

* The capitalized values of the annuities, which have been added to the Scottish loans, amounted in 1887-8 to £4 millions (*estimated*), and in 1888-9 to 1894-5 to £5 millions (*estimated*); in 1895-6 to £5,079,528; in 1896-7 to £5,117,487; in 1897-8 to £5,102,827; in 1898-9 to £5,096,624; in 1899-1900 to £5,067,467; in 1900-1 to £5,012,481; in 1901-2 to £4,718,434; in 1902-3 to £4,596,459; in 1903-4 to £4,534,985; in 1904-5 to £4,313,135; in 1905-6 to £4,261,986; in 1906-7 to £3,838,293; in 1907-8 to £3,683,066; in 1908-9 to £3,675,150; in 1909-10 to £3,647,935; and in 1910-11 to £3,569,236.

† Including (for 1904-5) £45,943,557; (for 1905-6) £47,438,852; (for 1906-7) £47,407,029; (for 1907-8) £48,123,038; (for 1908-9) £48,872,063; and (for

XVII.

AUTHORITIES IN THE UNITED KINGDOM FOR EACH 1887-8 TO 1910-11.

Total. United Kingdom.	Per Head of Population.	Amount raised by Loans each Year.§	Net Result.	Year.
£	£	£	£	
227,405,007	6·21	10,947,736	—	1887-8
231,802,258	6·28	9,206,769	+ 4,397,251	1888-9
235,166,706	6·32	8,956,487	+ 3,364,448	1889-90
237,881,338	6·34	8,528,840	+ 2,714,632	1890-1
246,471,866	6·52	12,505,631	+ 8,590,528	1891-2
258,135,641	6·76	14,819,661	+ 11,663,775	1892-3
269,709,576	7·00	16,970,276	+ 11,573,935	1893-4
281,627,291	7·24	18,197,501	+ 11,917,715	1894-5
291,156,663	7·42	14,814,782	+ 9,529,372	1895-6
302,894,195	7·64	17,325,373	+ 11,737,532	1896-7
314,565,813	7·86	17,390,850	+ 11,671,618	1897-8
331,172,657	8·20	23,350,459	+ 16,606,844	1898-9
352,286,004	8·63	27,984,094	+ 21,113,347	1899-1900
380,583,714	9·24	35,533,456	+ 28,297,710	1900-1
411,259,265	9·90	39,873,491	+ 30,675,551	1901-2
441,582,660	10·54	39,773,168	+ 30,323,395	1902-3
468,382,202	11·08	36,433,133	+ 26,799,542	1903-4
541,139,870	12·69	38,315,527	+ 72,757,668†	1904-5
561,212,129	13·05	29,849,675	+ 20,072,259	1905-6
572,505,474	13·20	24,389,238	+ 11,293,345	1906-7
583,000,561	13·33	25,396,374	+ 10,495,087	1907-8
592,535,103	13·43	23,965,808	+ 9,534,542	1908-9
623,896,545	14·01	45,195,663	+ 31,361 442†	1909-10
629,635,160	14·02	22,002,293	+ 5,738,615	1910-11

1909-10) £49,529,222, outstanding in respect of loans taken over or raised by the Metropolitan Water Board. Including also (for 1909-10) £23,209,909 outstanding in respect of loans accounted for by the Port of London Authority.

‡ The figures for Ireland, from 1887-8 to 1891-2 refer to the debt of municipal and harbour authorities only; and, from 1892-3 onwards, for all local authorities (including £300,000 as the estimated amount of the debt of Grand Juries for the years from 1892-3 to 1898-9 inclusive).

§ Sums raised by the Metropolitan Water Board not included in this column.

TABLE SHEWING NAVAL EXPENDITURE FROM VOTES, LOANS AND

(1887-8 TO

Financial Year.	Exchequer Issues. (1)	Total Expenditure from Navy Votes (net). (2)	(1) Annuity in repayment of Loans under (*a*) Imperial Defence Act, 1888, and (*b*) Naval Works Acts, 1895 to 1905; and (2) Interest on Advances under Naval Defence Act, 1889 (*c*). (3)	Total Expenditure exclusive of Annuities, etc. (Column 3). (4)	Expenditure from Special Funds (*a*) Imperial Defence Act, 1888, (*b*) Naval Works Acts, 1895 to 1905, and (*c*) Naval Defence Act, 1889 (See Column 3). (5)
	£	£	£	£	£
1887-8	12,325,357	12,348,895*	—	12,348,895	—
1888-9	12,999,895	12,934,641	—	12,934,641	238,197 (*a*)
1889-90	13,842,241	13,643,969	—	13,643,969	384,873 (*a*) 870,214 (*c*)
1890-1	14,125,358	13,910,732	64,216 (*a*)	13,846,516	122,902 (*a*) 3,131,450 (*c*)
1891-2	14,150,000	14,278,049	69,822 (*a*)	14,208,227	102,021 (*a*) 2,876,052 (*c*)
1892-3	14,302,000	14,325,949	95,343 (*a*) 15,566 (*c*)	14,215,040	5,985 (*a*) 2,065,900 (*c*)
1893-4	14,048,000	14,306,547	95,343 (*a*) 57,535 (*c*)	14,153,669	Cr. ‡475 (*a*) 1,030,692 (*c*)
1894-5	17,545,000	17,642,424	95,343 (*a*)	17,547,081	Cr. §3,739 (*a*) 31,468 (*c*)
1895-6	19,724,000	19,637,238	95,343 (*a*)	19,541,895	721,099 (*b*)
1896-7	22,170,000	22,271,902	95,343 (*a*)	22,176,559	695,220 (*b*)
1897-8	20,850,000	20,848,863	95,343 (*a*)	20,753,520	710,428 (*b*)
1898-9	24,068,000	23,880,876	95,343 (*a*)	23,785,533	1,210,241 (*b*)
1899-1900	26,000,000	25,731,220	95,343 (*a*)	25,635,877	1,498,898 (*b*)
1900-1	29,520,000	29,998,529	95,343 (*a*)	29,903,186	2,132,533 (*b*)
1901-2	31,030,000	30,981,315	122,255 (*b*)	30,859,060	2,745,176 (*b*)
1902-3	31,170,000	31,003,977	297,895 (*b*)	30,706,082	3,198,017 (*b*)

XVIII.

SPECIAL FUNDS; AND PARTICULARS OF NEW CONSTRUCTION 1912-13).

Appropriations in Aid. (6)	Gross Total of Naval Expenditure (Total of Columns 4, 5 and 6). (7)	New Construction (including Armaments from 1890-91). (8)			Amount of New Construction. (9)	Numbers of Personnel. (10)
		Voted and Expended (Expenditure in brackets).	Special Funds.			
			Imperial Defence Act, 1888.	Naval Defence Act, 1889.		
£	£	£	£	£	Tons.	
661,415	13,010,310	† 3,058,255 † (*2,819,537*)	—	—	—	61,970
673,471	13,846,309	† 2,686,150 † (*2,398,805*)	238,197	—	—	62,682
689,448	15,588,504	† 2,633,396 † (*2,455,997*)	384,873	870,214	—	64,207
896,735	17,997,603	3,458,301 (*3,272,851*)	122,902	3,131,450	—	67,112
894,518	18,080,818	3,271,600 (*3,352,035*)	102,021	2,876,052	—	69,723
1,004,908	17,291,833	2,871,071 (*2,916,712*)	5,985	2,065,900	—	72,990
990,878	16,174,764	2,904,111 (*2,833,707*)	Cr. ‡ 475	1,030,692	—	76,117
928,677	18,503,487	5,189,800 (*5,039,945*)	Cr. § 3,739	31,468	—	81,185
906,040	21,169,034	6,788,363 (*6,787,980*)	—	—	—	85,903
919,056	23,790,835	8,369,874 (*8,658,566*)	—	—	115,260	91,507
988,554	22,452,502	8,193,043 (*6,762,789*)	—	—	65,760	96,925
1,054,482	26,050,256	9,169,697 (*8,068,725*)	—	—	144,910	103,330
1,248,724	28,383,499	10,270,481 (*9,297,356*)	—	—	92,620	108,595
1,171,198	33,206,917	9,788,146 (*10,025,551*)	—	—	137,785	‖112,429
1,268,063	34,872,299	10,420,256 (*10,341,780*)	—	—	139,940	117,116
1,323,738	35,227,837	10,436,520 (*9,782,217*)	—	—	89,465	121,870

TABLE

TABLE SHEWING NAVAL EXPENDITURE FROM VOTES, LOANS AND

(1887-8 TO

Financial Year.	Exchequer Issues. (1)	Total Expenditure from Navy Votes (net). (2)	(1) Annuity in repayment of Loans under (*a*) Imperial Defence Act, 1888, and (*b*) Naval Works Acts, 1895 to 1905 ; and (2) Interest on Advances under Naval Defence Act, 1889 (*c*). (3)	Total Expenditure exclusive of Annuities, etc. (Column 3). (4)	Expenditure from Special Funds (*a*) Imperial Defence Act, 1888, (*b*) Naval Works Acts, 1895 to 1905, and (*c*) Naval Defence Act, 1889 (See Column 3). (5)
	£	£	£	£	£
1903-4	35,476,000	35,709,477	502,010 (*b*)	35,207,467	3,261,083 (*b*)
1904-5	36,830,000	36,859,681	634,238 (*b*)	36,225,443	3,402,575 (*b*)
1905-6	33,300,000	33,151,841	1,015,812 (*b*)	32,136,029	3,313,604 (*b*)
1906-7	31,434,000	31,472,087	1,094,309 (*b*)	30,377,778	2,431,201 (*b*)
1907-8	31,141,000	31,251,156	1,214,402 (*b*)	30,036,754	1,083,663 (*b*)
1908-9	32,188,000	32,181,309	1,264,033 (*b*)	30,917,276	948,262 (*b*)
1909-10	35,807,000	35,734,015	1,325,808 (*b*)	34,408,207	—
1910-11	40,386,000	40,419,336	1,322,752 (*b*)	39,096,584	—
1911-12 (estimate)	42,858,000	44,392,500	1,322,752 (*b*)	43,069,748	—
1912-13 (estimate)	44,365,000	45,075,400	1,322,752 (*b*)	43,752,648	—

NOTE—The figures relating to the year 1887-8, in columns 2 to 8, exclude provision for Naval armaments, which was made under Army votes prior to 1st April, 1888.

* Includes a sum of £137,205 under vote 17 in respect of freight, etc., for the Army (conveyance of troops), provided for in subsequent years under Army votes.

† Excludes armaments for new construction. Prior to the year 1888-9 provision for naval ordnance services was made under Army votes. The figures for the years 1888-9 and 1889-90 are not available.

XVIII—*Continued.*

SPECIAL FUNDS; AND PARTICULARS OF NEW CONSTRUCTION 1912-13).

Appropriations in Aid.	Gross Total of Naval Expenditure (Total of Columns 4, 5 and 6).	New Construction (including Armaments from 1890-91). (8)			Amount of New Construction.	Numbers of Personnel.
		Voted and Expended (Expenditure in brackets).	Special Funds.			
			Imperial Defence Act, 1888.	Naval Defence Act, 1889.		
(6)	(7)				(9)	(10)
£	£	£	£	£	Tons.	
1,533,315	40,001,865	11,473,030 (*12,398,133*)	—	—	155,225	125,948
1,434,057	41,062,075	13,508,176 (*13,184,419*)	—	—	85,880	130,490
1,709,602	37,159,235	11,291,002 (*11,368,744*)	—	—	116,570	127,667
1,790,562	34,599,541	10,859,500) (*10,486,397*)	—	—	83,260	127,431
1,615,350	32,735,767	9,227,000 (*8,849,589*)	—	—	119,937	127,228
1,646,181	33,511,719	8,660,202 (*8,521,930*)	—	—	77,202	127,909
1,651,445	36,059,652	11,227,194 (*11,076,551*)	—	—	92,957	127,968
2,022,084	41,118,668	14,957,430 (*14,755,289*)	—	—	176,582	130,817
1,812,299	44,882,047	17,566,877 (*15,059,881*)	—	—	183,290	134,000
1,863,892	45,616,540	17,271,527	—	—	141,445	137,500

‡ Net credit due to gun-mounting gear charged to Imperial defence fund in a previous year being transferred to Navy votes during 1893-4, as the stores were available for ordinary naval service.

§ Net credit due to return of ammunition over-issued, and subsequently available for ordinary naval service.

|| Excludes 565, raised under supplementary estimate, 26th February, 1901, for Australian naval forces for service in China.

TABLE XIX.

TABLE SHEWING ARMY EXPENDITURE—FROM VOTES AND FROM LOANS. (1887-8 TO 1912-13).

Financial Year.	Exchequer Issues on Account of Army.	Percentage to Total (Gross) Expenditure.	Army Expenditure as per Appropriation Account.	Annuities (other than interest) payable under Barracks Act and Military Works Act.	Net Army Expenditure, excluding Loan Repayments.	Expenditure from Loan.	Total Expenditure.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	£		£	£	£	£	£
1887-8	18,167,000	20·7	17,614,091	—	17,614,091	51,075	17,665,166
1888-9	15,957,738	18·3	16,553,611	—	16,553,611	245,249	16,798,860
1889-90	17,360,912	19·0	17,044,678	—	17,044,678	606,438	17,651,116
1890-1	17,560,023	18·5	17,611,969	—	17,611,969	974,454	18,586,423
1891-2	17,259,000	17·7	17,441,293	—	17,441,293	858,186	18,299,479
1892-3	17,542,000	17·9	17,587,772	—	17,587,772	779,641	18,367,413
1893-4	17,940,000	18·2	17,935,920	22,851	17,913,069	786,547	18,699,616
1894-5	17,900,000	17·7	17,770,095	52,983	17,717,112	754,406	18,471,518
1895-6	18,460,000	17·5	18,470,535	92,197	18,378,338	619,579	18,997,917
1896-7	18,270,000	16·6	18,156,520	131,646	18,024,874	456,787	18,481,661
1897-8	19,330,000	17·2	19,528,390	137,996	19,390,394	819,132	20,209,526
1898-9	20,000,000	16·9	20,096,373	142,121	19,954,252	947,423	20,901,675
1899-1900	43,600,000	30·3	43,065,398	174,206	42,891,192	1,216,207	44,107,399
1900-1	91,710,000	47·4	91,343,544	204,645	91,138,899	1,285,772	92,424,671
1901-2	92,542,000	45·0	92,660,874	244,456	92,416,418	1,749,487	94,165,905
1902-3	69,440,000	35·7	68,863,527	277,298	68,586,229	1,662,294	70,248,523
1903-4	36,677,000	23·3	36,728,580	338,146	36,390,134	3,262,900	39,653,034
1904-5	29,225,000	19·2	28,895,624	402,226	28,493,398	3,066,240	31,559,638
1905-6	28,850,000	19·1	28,478,863	636,705	27,842,158	1,287,416	29,129,574
1906-7	27,765,000	18·6	28,501,421	696,414	27,805,007	560,980	28,365,987
1907-8	27,115,000	17·8	27,141,642	733,282	26,408,360	308,252	26,716,612
1908-9	26,840,000	17·6	26,859,299	733,282	26,126,017	212,056	26,338,073
1909-10	27,236,000	17·2	27,243,825	787,931	26,455,894	168,204	26,624,098
1910-11	27,449,000	15·9	27,549,491	820,086	26,729,405	193,503	26,922,908
1911-12	27,649,000	15·2	27,652,342	548,618	27,103,724	225,086	27,328,810
1912-13 *	28,071,000	14·9	28,108,000	568,620	27,539,380	94,000	27,633,380

* Parliamentary Estimates.

TABLE XX.

TABLE SHEWING TOTAL EXPENDITURE UNDER THE HEADS OF ARMY AND NAVY, AND THE PERCENTAGE TO TOTAL GROSS EXPENDITURE, AND COST PER HEAD OF POPULATION.

Financial Year.	Total Exchequer Issues on account of Army and Navy.	Percentage to Total (Gross) Expenditure.	Financial Year.	Total Exchequer Issues on account of Army and Navy.	Percentage to Total (Gross) Expenditure.
	£			£	
1887-8	30,492,000	34·88	1900-1	121,230,000	62·71
1888-9	28,957,633	33·26	1901-2	123,572,000	60·21
1889-90	31,203,153	34·19	1902-3	100,610,000	51·79
1890-1	31,685,381	33·46	1903-4	72,153,000	46·03
1891-2	31,409,000	32·21	1904-5	66,055,000	43·52
1892-3	31,844,000	32·63	1905-6	62,150,000	41·32
1893-4	31,988,000	32·49	1906-7	59,199,000	39·56
1894-5	35,445,000	35·12	1907-8	58,256,000	38·37
1895-6	38,184,000	36·32	1908-9	59,028,000	38·76
1896-7	40,440,000	36·86	1909-10	63,043,000	39·91
1897-8	40,180,000	35·77	1910-11	67,835,000	39·44
1898-9	44,068,000	37·45	1911-12	72,507,000	39·94
1899-1900	69,600,000	48·44	1912-13	72,436,000	38·40

EXPENDITURE ON ARMY AND NAVY: PERCENTAGES OF INCREASES AND DECREASES, AND EXPENDITURE PER HEAD OF POPULATION.

Percentage of Increase of	1892-3 over 1887-8.	1898-9 over 1892-3.	1905-6 over 1898-9.	1912-13 over 1905-6.	1912-13 over 1887-8.
Army - - -	(*3·44 decrease*)	14·01	44·25	(*2·70 decrease*)	54·52
Navy - - -	16·04	68·28	38·36	33·23	259·96
Total (Army and Navy)	4·43	38·39	41·03	16·55	137·56
	1887-8.	1892-3.	1898-9.	1905-6.	1912-13.
Cost per head of Population of the Army and Navy	£0·832 or 16/8	£0·833 or 16/8	£1·089 or £1/1/9	£1·442 or £1/8/10	£1·584 or £1/11/8

TABLE SHEWING CIVIL SERVICE EXPENDITURE (EXCHEQUER ISSUES)

Financial Year.	Class I. Public Works and Buildings. (1)	Class II. Salaries and Expenses of Civil Departments, etc. (2)	Class III. Law and Justice. (3)	Class IV. Education, Science and Art. (4)
	£	£	£	£
1887-8	1,995,500	2,432,699	6,267,020	5,560,767
1888-9	1,374,644	2,386,268	6,294,127	5,744,580
1889-90	1,472,701	2,138,578	4,666,830	5,840,290
1890-1	1,684,460	2,119,752	4,540,484	6,055,886
1891-2	1,959,191	2,278,077	4,347,385	6,969,575
1892-3	1,645,340	1,938,788	3,760,963	8,891,659
1893-4	1,617,382	1,971,427	3,698,605	9,388,545
1894-5	1,726,041	2,002,286	3,632,906	9,766,041
1895-6	1,854,898	2,130,295	3,692,874	10,256,334
1896-7	1,868,862	2,097,792	3,627,754	10,685,451
1897-8	1,887,587	2,120,260	3,683,683	11,535,249
1898-9	1,887,496	2,095,093	3,647,855	11,936,498
1899-1900	2,027,268	2,093,319	3,684,801	12,180,465
1900-1	2,009,564	2,358,771	3,706,541	12,536,341
1901-2	2,101,953	2,605,525	3,793,100	12,795,188
1902-3	2,296,791	2,500,812	3,774,572	13,340,587
1903-4	2,532,733	2,535,530	3,781,086	14,616,220
1904-5	2,497,090	2,561,176	3,760,135	15,574,513
1905-6	2,548,423	2,616,697	3,770,674	16,396,481
1906-7	2,669,308	2,643,536	3,773,295	16,946,419
1907-8	2,691,721	2,915,990	3,839,164	17,359,203
1908-9	2,872,147	2,874,343	3,963,209	17,368,771
1909-10	3,112,789	3,040,707	4,081,020	17,907,467
1910-11	3,166,861	3,365,661	4,277,930	18,744,175
1911-12	3,217,217	4,143,581	4,360,463	18,983,036
1912-13	3,491,445	4,319,745	4,470,165	19,530,615

* Since 1911-12 Class VIII. vote is included under Class VII.

† Includes a grant-in-aid of £6,500,000 to Transvaal and Orange River Colony.

XXI.

CLASSIFIED ACCORDING TO THE VOTES
1887-8 TO 1912-13.

Class V. Foreign and Colonial Services. (5)	Class VI. Non-effective and Charitable Services. (6)	Class VII.* Miscellaneous. (7)	Total. (8)
£	£	£	£
601,303	1,240,338	112,373	18,210,000
630,680	1,267,343	175,344	17,872,986
654,699	777,446	39,446	15,589,990
690,430	641,782	307,337	16,040,131
684,439	734,203	527,839	17,500,709
651,113	657,984	234,668	17,780,515
691,989	672,537	185,606	18,226,091
839,651	708,013	240,062	18,915,000
924,767	704,724	236,108	19,800,000
825,003	843,165	96,973	20,045,000
1,209,577	748,469	375,175	21,560,000
1,600,622	770,968	86,468	22,025,000
1,709,336	640,173	194,638	22,530,000
2,084,318	633,542	170,923	23,500,000
8,403,095 †	641,932	159,207	30,500,000
13,337,548 ‡	613,075	336,615	36,200,000
2,206,654	880,861	316,916	26,870,000
2,075,148	652,671	329,267	27,450,000
1,961,482	803,180	333,063	28,430,000
1,883,950	783,170	418,322	29,118,000
2,050,187	816,990	506,745	30,180,000
1,824,244	2,848,114	587,172	32,338,000
1,945,737	9,387,148	535,132	40,010,000
1,995,279	10,599,000	949,094	43,098,000
2,053,061	12,530,792	712,850	46,001,000
2,151,317	13,005,744	4,974,969	51,944,000

‡ Includes a grant-in-aid of £8,000,000 to Transvaal and Orange River Colony.

Financial Year.	Civil Services. See notes, pp. 426 and 427.				Social
	Civil List Annuities and Pensions, Salaries and Allowances, Courts of Justice, Miscellaneous Services. (1)	Civil Services (Col. 8, Table XXI.) less Expenditure of the (1) Education Departments, (2) Old Age Pensions, (3) Labour Exchanges and Unemployment Insurance, (4) National Health Insurance Commissions. (2)	Total of Cols. 1 and 2. (3)	Percentage to Total (Gross) Expenditure (4)	Expenditure of the Education Departments, England, Scotland, and Ireland; and (from 1908) Old Age Pensions, Labour Exchanges, Insurance Commissions. (5)
1887-8	£1,758,084	£ 13,336,632	£15,094,716	17·2	£4,873,368
1888-9	1,629,987	12,814,993	14,444,980	16·5	5,057,993
1889-90	1,634,194	10,476,211	12,110,405	13·2	5,113,779
1890-1	2,067,533	10,777,882	12,845,415	13·5	5,262,249
1891-2	2,340,928	11,354,945	13,695,873	14·0	6,145,764
1892-3	1,637,603	9,806,687	11,444,290	11·7	7,973,828
1893-4	1,641,195	9,791,373	11,432,568	11·6	8,434,718
1894-5	1,602,421	10,137,065	11,739,486	11·6	8,777,935
1895-6	1,561,357	10,637,959	12,199,316	11·6	9,162,041
1896-7	1,602,867	10,446,345	12,049,212	10·9	9,598,655
1897-8	1,845,994	11,160,111	13,006,105	11·5	10,399,889
1898-9	1,591,854	11,026,196	12,618,050	10·7	10,998,804
1899-1900	1,584,810	11,283,455	12,868,265	8·9	11,246,545
1900-1	1,569,407	11,327,423	12,896,830	6·6	12,172,577
1901-2	1,643,791	18,080,655 *	19,724,446	9·6	12,419 345
1902-3	1,632,607	23,255,796 †	24,888,403	12·8	12,944,204
1903-4	1,624,431	12,667,549	14,291,980	9·1	14,202,451
1904-5	1,608,630	12,289,358	13,897,988	9·1	15,160,642
1905-6	1,624,160	12,495,718	14,119,878	9·3	15,934,282
1906-7	1,679,012	12,640,851	14,319,863	9·5	16,477,149
1907-8	1,971,715	13,287,286	15,259,001	10·0	16,892,714
1908-9	1,669,109	13,412,682	15,081,791	9·9	18,925,318
1909-10	1,653,555	14,085,852	15,739,407	9·9	25,924,148
1910-11	1,664,313	14,666,492	16,330,805	9·4	28,031,508
1911-12	1,692,842	15,619,223	17,312,065	9·5	30,381,777
1912-13	1,692,426	16,361,872	18,054,298	9·6	35,582,128

* Includes a grant of £6,500,000 to Transvaal and Orange River Colony.
† „ „ £8,000,000 „ „ „

All amounts shewn above are those of Exchequer issues with the exception that those for Labour Exchanges (salaries, etc.), for 1909-1912 are taken from the appropriation accounts (Board of Trade). The figure under this head for 1912-13, viz. £684,037, is the the amount of the Exchequer issues for 1912-13 for Labour Exchanges and Unemployment Insurance.

For 1913-14 the amount under column 2 is £16,172,000.

Services.	Postal Services.		Collection of Revenue.			
Percentage to Total (Gross) Expenditure.	Post Office. (Gross Expenditure.)	Percentage to Total (Gross) Expenditure.	Customs and Inland Revenue.	Percentage to Total (Gross) Expenditure.	Total.	Percentage of Col. 11 to Total (Gross) Expenditure.
(6)	(7)	(8)	(9)	(10)	(11)	(12)
5·5	£8,041,352	9·1	£2,707,745	3·0	£30,717,181	35·1
5·8	8,270,351	9·4	2,718,322	3·1	30,491,646	35·0
5·6	8,303,205	9·0	2,654,891	2·9	28,182,280	30·8
5·5	8,660,792	9·1	2,643,447	2·7	29,411,903	31·0
6·3	9,316,617	9·5	2,691,948	2·7	31,850,202	32·6
8·1	9,829,081	10·0	2,615,595	2·6	31,862,794	32·6
8·5	10,108,000	10·2	2,670,988	2·7	32,646,274	33·1
8·6	10,270,000	10·1	2,646,000	2·6	33,433,421	33·1
8·7	10,477,000	9·9	2,702,000	2·5	34,540,357	32·8
8·7	10,834,000	9·8	2,716,000	2·4	35,197,867	32·0
9·2	11,565,000	10·2	2,745,000	2·4	37,715,994	33·5
9·3	12,197,000	10·3	2,816,000	2·3	38,629,854	32·8
7·8	12,841,000	8·9	2,800,000	1·9	39,755,810	27·6
6·2	13,471,000	6·9	2,834,000	1·4	41,374,407	21·4
6·0	14,012,000	6·8	2,955,000	1·4	49,110,791	23·9
6·6	14,563,000	7·4	3,040,000	1·5	55,435,607	28·5
9·0	15,072,000	9·6	3,085,000	1·9	46,651,431	29·7
9·9	15,593,000	10·2	3,093,000	2·0	47,744,630	31·4
10·5	15,978,000	10·6	3,148,000	2·0	49,180,160	32·6
11·0	16,583,000	11·0	3,179,000	2·1	50,559,012	33·7
11·1	17,527,000	11·5	3,222,000	2·1	52,900,715	34·8
12·4	18,113,000	11·8	3,320,000	2·1	55,440,109	36·4
16·4	18,693,000	11·8	3,342,000	2·1	63,698,555	40·3
16·3	19,681,000	11·5	3,919,000	2·2	67,962,313	39·5
16·7	20,547,000	11·3	3,951,000	2·1	72,191,842	39·7
18·9	23,024,000	12·2	4,200,000	2·2	80,860,426	42·9

ANALYSIS OF COLUMN 5 (FROM 1908-9).

Year.	Education.	Old Age Pensions.	Labour Exchanges and Unemployment Insurance.		National Health Insurance Commissions.
			Buildings.	Salaries, etc.	
1908-9	£16,855,318	£2,070,000	—	—	—
1909-10	17,341,598	8,496,395	£70,000	£16,155	—
1910-11	18,049,292	9,797,679	75,621	108,926	—
1911-12	18,352,777	11,727,597	107,390	162,423	£31,590
1912-13	18,613,231	12,210,611	292,617	684,037	3,781,632
1913-14 Estimated expenditure	18,717,000	12,600,000	223,200	7,499,000	

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